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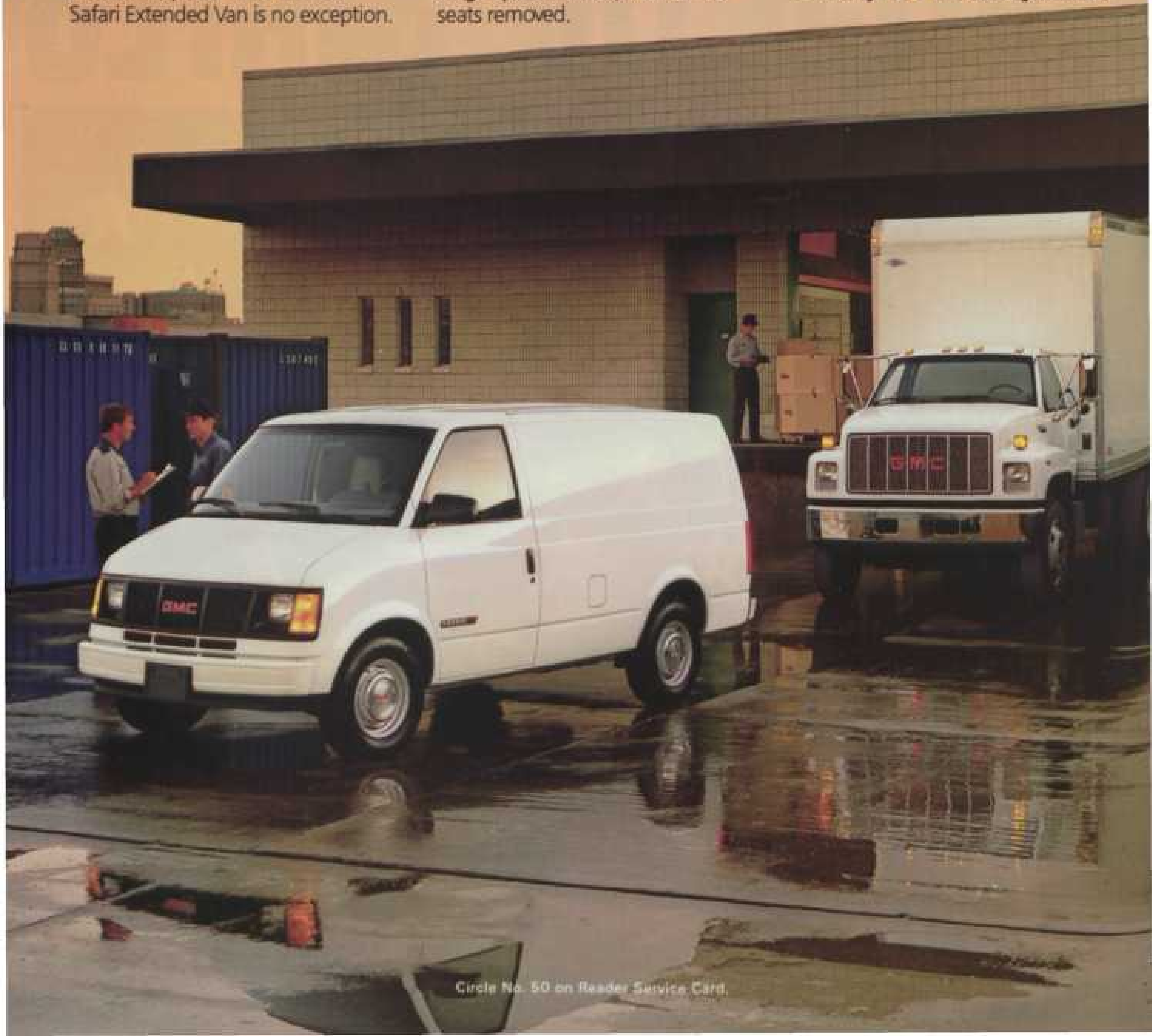

Nation's Business

VOL. 78, NO. 11

Sharply increased state activism *is having a major impact—for better or worse—on the way American enterprise operates. Cover Story, Page 14.*

PHOTO: ©STEVE WOIT

Recyclers *Stuart Hamilton and Daniel Huschke plan to expand beyond Minnesota. Franchising, Page 47.*

Published by the U.S. Chamber of Commerce Washington, D.C.

PHOTO: ©HANSON CARROLL

Greetings *from Helene and Joseph Massimino of Vermont's Oatmeal Studios. Making It, Page 11.*

DEPARTMENTS

Cover Design: Hans A. Baum

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Editor's Note

Watching Your Own State Isn't Enough

PHOTO: ©JAMES COOK

Entrepreneur Terry Considine of Denver (shown in the photo) believes in business activism. This owner of gas stations, convenience stores, and environmental businesses is a state senator as well, and he also is spearheading a campaign to make a major change in the political and governmental life of his state. That effort is aimed at limiting the number of years that Colorado lawmakers may serve in the state Legislature and in Congress. Colorado voters will decide Nov. 6.

The campaign in Colorado (along with similar efforts in Oklahoma and California) is giving the term-limit issue greater visibility than it has had in the past. It's an example of how major political developments can sometimes flow from the states toward Washington, rather than vice versa. Another such example was the California tax revolt of the early 1970s. Many political observers believe that it set the stage for the Reagan era in American government.

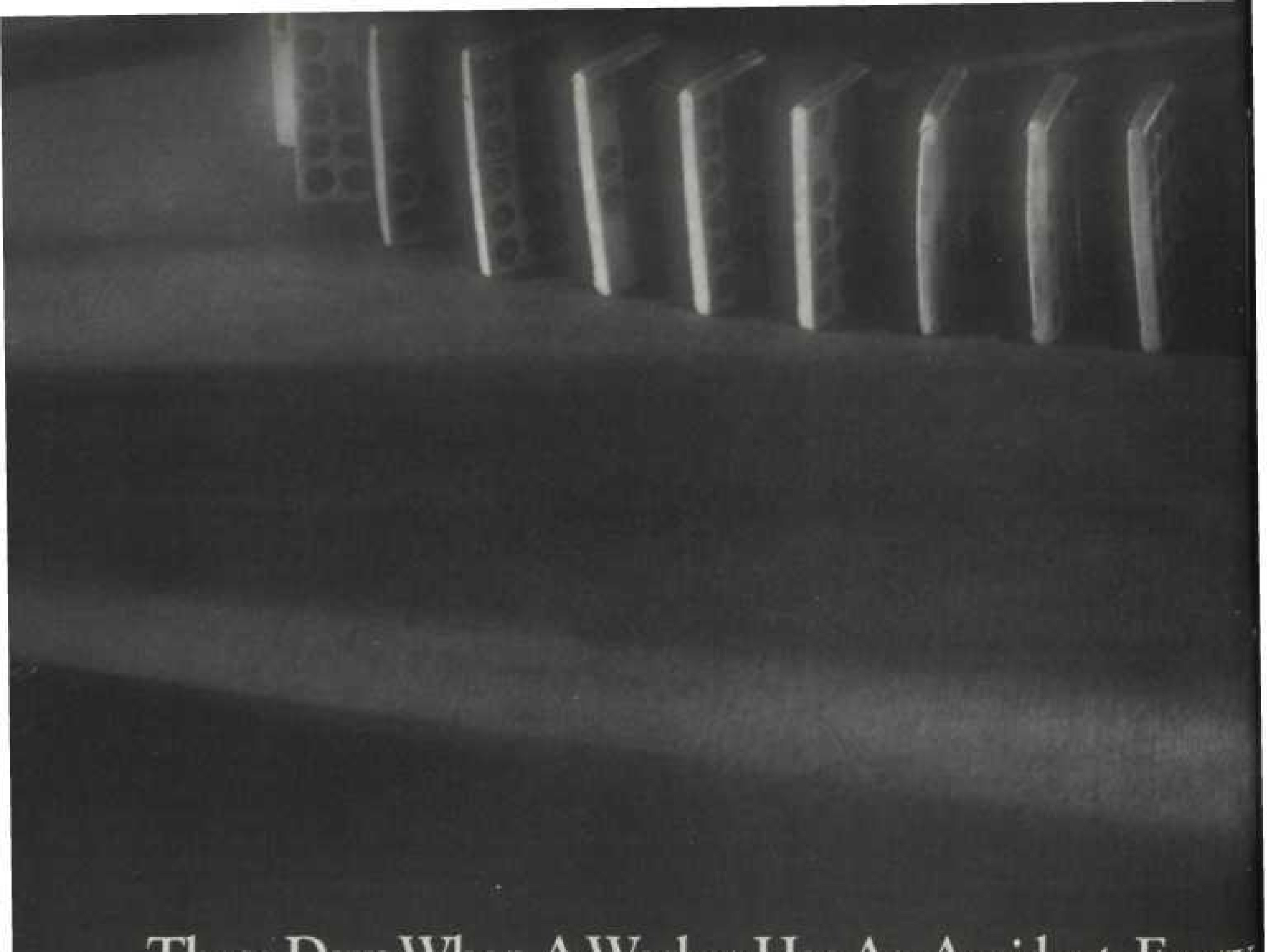
But there is another niche for state activism. Businesses that operate across state lines face increasing problems with regulations affecting their products. One state's strict packaging requirements, for example, might encourage a company to forgo business rather than set up a separate packing operation to meet its requirements or have the full production run for all or many states meet the demands of that one state.

And business people who don't operate across state lines shouldn't think that trends in other states don't have anything to do with them. A law passed in one state today can be copied in others tomorrow. A trend in states on the other side of the country tomorrow could reach your state months later.

Our cover story will tell you what's happening in this area of state activism, how it could affect you, and how you can keep up to date on developments you need to know about.

Robert T. Gray

Robert T. Gray
Editor



These Days When A Worker Has An Accident, Every

The Workers Compensation System was designed to help injured workers get well, and return to work. In most states, it does. In other states, the problems aren't simply big. They're enormous.

And beginning to spread into other states. Right down the line, everybody's starting to feel the effects—from the workers, to their families, to the employers, to the insurers.

The System

Over 75 years ago, when it was created to protect workers from on-the-job injuries, Workers Compensation was based on some well-intentioned and well-received ideas:

To prevent work-related accidents from ever happening.

To give prompt, quality medical attention and equally prompt income benefits.

To rehabilitate injured workers and help them get back to work.

To offer cost stability to the employer.

And ultimately, to keep the entire workplace productive—the less down-time, the more time you have to be competitive, and stay competitive.

The Obstacles

It bears repeating: There are problems. Big problems, in many states, that need fixing. We also need to strengthen the system so that these problems don't spread to other states.

Problems like unnecessary, time-consuming litigation. Soaring claims costs. Underfunded, understaffed state-administered agencies. And on a national level, runaway medical costs.

Fact is, the economies of entire states are

Letters

Cutting The Costs Of Health Care

I read with interest your October cover story, "10 Ways To Cut Your Health-Care Costs Now." Let me add my own experience as an employer seeking to reduce my coverage costs.

The plan year with my company's previous health-insurance provider ended Sept. 1. For 22 employees, my annualized premiums would have risen from $45,000 in 1990 to $60,000 in 1991.

I shopped 22 companies and compared all of them on costs vs. benefits. I chose a plan that provided for a $1,000 deductible, 50 percent of the next $2,000, and 100 percent coverage after that for an out-of-pocket maximum for an individual of $2,000, or $4,000 for a family. The premiums plummeted to $28,000 annually.

ILLUSTRATION: SHARON COHEN

With the premium savings, I offered $300 per year per subscriber under a medical-reimbursement plan for any medical-related bill; also, any employee who meets a $2,000 deductible will be reimbursed by the company.

In summary, I took on a high-deductible plan, pocketed some of the difference, gave my employees better first-dollar coverage, kept their out-of-pocket expenses lower than many plans, and got out of the group-insurance premium race for a while.

David L. Oberg
President
Objective Industries
Fishersville, Va.

The traditional doctor-patient team is slowly and painfully being replaced by a doctor-patient-financial entity triad. The financial entity collects and redistributes health-care dollars.

This three-member team could potentially perform at much higher levels of efficiency than the traditional team if the reciprocal adjustments between the three members were more precise.

Paradoxically, the highest levels of health care per dollar expended will be achieved only when both doctors and patients have relinquished some of their traditional privileges and autonomy.

Kenneth M. Heck
Consultant
Insurance Conceptions, Inc.
Wichita, Kan.

More Sources For Technology Transfer

Your Small-Business Update item on technology ["Biotech Firms Team Up With U.S. Research Labs," September] was right about the plentiful research opportunities available in the U.S. for domestic industry. But federal research resources are only part of the story.

Let us not ignore the rich technology available from our country's university, college, and other nonprofit laboratories. University-based research offers new business opportunities in biotechnology as well as diagnostics, agricultural chemicals, mechanics, and more.

Patricia Belbey
Research Corporation Technologies
Tucson, Ariz.

Shareware—A Spreading Network For Software

In the August story ["Software For Sharing"], you gave a list of companies that distribute shareware. To date I have not only received catalogs from most but have even received additional names from those companies of other shareware companies. Thank you.

Carol R. Fair
Baker, Worthington, Crossley, Stansberry & Woolf
Johnson City, Tenn.

I enjoyed the article. Shareware is indeed a much-overlooked alternative to the commercial software market. As a technical-support specialist with the Texas Commission for the Blind, I have come to rely on the shareware method of software distribution. It is the only way that I can look at, evaluate, and test software before actually buying it.

One shareware distributor who provides some unique extra services is Austin ProSoft (800-594-7769). The com-

pany includes a small file on each disk that allows blind computer users to receive *spoken* information on running and operating each program.
Harold Gregg
Texas Commission For The Blind
Austin

Noncompete Agreements

The key to a noncompete agreement ["Drawing The Line On Competitors," August] is to call it a nonsolicitation agreement. An employer gives up the training invested in an employee when a job change is made, but the employer's customer list should not be jeopardized.

If you have trouble getting a nonsolicitation agreement signed, point out that it is for the employee's protection. If an employee is being wooed by a competitor, wouldn't this person like to know that the competitor's interest is for the employee's skills and not just for their current employer's customer list? The narrower scope of a nonsolicitation agreement ensures this.
Jeffrey S. Paine
Vice President, Sales
Amerex Corp.
Elk Grove Village, Ill.

ILLUSTRATION: GREGG FITZHUGH

Noncompete *and nonsolicitation agreements can protect your business.*

Reasonable Medical Costs

"Mandates Reduced" [August] refers to chiropractic care as an example of "costly medical services." It is not; it is an alternative to traditional medical treatment which numerous studies have demonstrated is more cost-effective.
John D. Wanner
Executive Director
Chiropractic Fellowship of Pennsylvania

Put The Money On The Roads

I am a small-business person with my own truck, and I applaud your September editorial ["It's Time To End The Rip-Off Of Federal Trust Funds"]. The money to have first-class bridges and highways has been collected for many years. The money has been tied up to make our federal deficit appear smaller than it really is. The federal use tax is so high that I keep my 1980 tractor instead of getting a new one (and that hurts truck sales). California collects diesel fuel taxes and puts the money in the general fund—and then passes a massive tax increase to upgrade the infrastructure.

In my view, the highway fund money has in effect been misappropriated. This arrogance and huge growth of government will eventually strangle business at all levels.
Richard Crane
Thermopolis, Wyo.

Your editorial is on the mark. The federal government's "smoke-and-mirrors" tactics in manipulating the dedicated trust funds are indicative of why voters and businesses distrust the legislative process.
William Hanigan
Vice President, Administration
Zagar, Inc.
Cleveland

Opportunity For Minorities

J. Bruce Llewellyn is to be congratulated on his success ["Business Is The Emancipator," September]. He was fortunate to have been raised in an environment that fostered drive and determination. Our society can do so much for our fellow man and minorities in particular by providing that environment and an opportunity to everyone.

On one point, however, Mr. Llewellyn's success is questionable. His ABC television affiliate in Buffalo is wallowing in red ink, according to news accounts.
J. Robert Kulp
Vice President
Oehler Industries, Inc.
Buffalo, N.Y.

[Editor's Note: Bruce Llewellyn recently sold a large stake in the station to Prudential Insurance for more than he and his investors had in it, while still retaining 55 percent ownership for his group.]

Send letters to Editor, Nation's Business, *1615 H Street, N.W., Washington, D.C. 20062, and include your phone number. Letters addressed to the Editor will be considered for publication unless the writer requests otherwise, and they may be edited and condensed.*

Managing Your Small Business

Getting "green" firms off the ground, cutting company costs, and pointers for the soon-to-sell.

By Bradford A. McKee

COST CONTROL

Cut "Sacred Cow" Expenses

Managers cutting costs should question the need for every asset—even the most "sacred"—in their firms, says one cost-control analyst. Often, the analyst says, only a total revamping of a firm's policies will stem needless fiscal drains.

Scrutinize your firm's "sacred cows," says Peter G. Vajta, a Los Angeles-based cost analyst with the corporate consulting firm of Arthur D. Little Inc. He cites a manufacturing company that cut costs by merging its two plants, halting production of barely profitable items, and reducing its appetite for raw materials, thereby trimming inventory costs. Another firm, he says, "really reduced inventory costs" and improved cash flow by rejecting partial returns—a policy change that was tried in a test market before adoption.

"Many costs are due to policies," Vajta says. "And if you can change policies, you can change costs."

MARKETING

Take Time To Sell Yourself

Marketing expert Adrienne Zoble, who heads an advertising agency that bears her name, in Green Brook, N.J., says that her favorite marketers are business owners who are aggressively service-oriented.

In a competitive era when service quality can spell the difference between success and failure, they actively find out what pleases clients and what doesn't. They uncover complaints. Over lunch with clients, they discover the competition. They get referrals from clients for new clients. All this is simple word of mouth.

Are they spending too much time or money?

"A resounding no!" says Zoble.

To market well, she says, you must know your "ideal" customer. Your firm's chief, not just its sales people, should be out meeting with customers. Your firm's superior service should be a client's solid perception—not just your claim.

In addition, you should have a coherent corporate image in your business cards and letterhead.

Dozens of quizzes to help you be a better marketer are in Zoble's workbook, *The Do-able Marketing Plan*. The 74-page guide helps you plan a little at a time. Copies are $37.95, plus $6.75 for postage (in New Jersey, add $2.66 sales tax).

Write to Adrienne Zoble Advertising Inc., 933 Washington Ave., Suite 1A, Green Brook, N.J. 08812; or call (201) 968-7771.

TRADEMARKS

What's In A Name

Simple names are better than tricky ones for a company or product, experts say, and picking the right name is a challenge. U.S. firms register about a million business names a year, says Naseem Javed, president of ABC Namebank International Inc., a New York firm that researches business names.

PHOTO: © JOHN HARQUAIL—BLACK STAR

Naseem Javed: *Pick a memorable name.*

Choose memorable, distinctive names that won't pose legal problems, Javed says. The name "must come into the buyer's mind" when the time comes to consume, he says. "For [computer pioneer] Steve Jobs to name his company 'Apple' was an excellent choice"—a short word, a positive image for a distinctive product, Javed says.

Your firm's name should make plain the benefit of your work, says David Placek, president of Lexicon Naming, in Sausalito, Calif., whose firm named Simplesse, the dietary fat substitute.

When naming a firm's sidelines or its product line, Placek says, "build equity in one or two names by adding 'descriptors'" to a root name, as McDonald's Corp. does with its products; don't toss a dozen names into your market. "In less than a second," he says, "a name should create an idea."

WORKPLACE

Get Rid Of The Glare

Your employees may lose 15 to 30 minutes a day of work time if there's a glare on their computer screens from downward, direct lighting, says a Cornell University researcher.

Indirect lighting, which diffuses light by reflecting it off a ceiling, reduces glare on computer screens, says Alan Hedge, a Cornell human-ecology specialist. Getting rid of the glare will cut computer errors, Hedge says, and reduce trips to the water fountain for eye breaks.

OWNERSHIP

Selling Soon? Look Lean

Owners of small and midsized businesses planning to sell their firms in a few years should start grooming them now to look their best for buyers, says Stephen B. Blum, director of mergers and acquisitions at the accounting firm of KPMG Peat Marwick, in New York.

Buyers look more favorably at specialized firms nowadays, Blum says, and look less for the diversified companies popular in the 1980s. Control is the reason, he says.

"People don't believe that a manager can manage diverse businesses," and they also would prefer to invest in two firms doing different work than in one firm dividing its attention, says Blum.

If you're thinking of selling, "get rid of the business in unrelated areas," simplify your company's structure, and strengthen the core of your operation, says Blum. "Offer the buyer a well-focused business."

Describe your firm in writing if you're thinking of selling, Blum says. This activity gives discipline to planning, he says, and it also "forces the seller to think about the business he's really in."

Go for higher earnings rather than lower taxes for your firm, Blum recommends. Buyers look for earnings and profitability, and they tend to pay a price based on multiples of earnings, he says.

Although you may pay higher taxes on the higher earnings, he says, you'll get it back "many times over" in a higher selling price.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START-UP

How To Survive The Lighter Green Times

Environmental entrepreneurs should make sure their products or services will survive any temporary eclipses of "green consciousness," says start-up expert David Thornburgh.

New environmental markets often suffer from shaky demand, says Thornburgh, director of the Wharton Small Business Development Center, in Philadelphia.

Many "eco-entrepreneurs," as Thornburgh calls them, start their businesses because of their own strong commitments to protecting the environment. But each of these entrepreneurs, he says, must ask whether consumers share that commitment.

Thornburgh also says such entrepreneurs should seek capital from environmentally oriented lenders or investors who know the risks and rewards of so-called green markets.

Andy Ferguson, a consultant with the Catalyst Group, an environmental business development organization in Brattleboro, Vt., agrees that environmental entrepreneurs need lenders well-versed in the ecology of these peculiar markets. With their expertise, he says, environmental lenders "add value" to such start-ups.

SALARIES

If They're Worth More, Pay More

Managers who tie employee pay to merit enjoy greater productivity in their firms, say compensation analysts.

Incentive plans that reward better work with higher pay are popping up for all kinds of jobs, says Alan Johnson, a compensation consultant with Handy Associates, in New York. Incentives "work as well for clerks and line workers" as they do for managers and sales people, Johnson says.

Among 2,200 firms polled by the Wyatt Co., a Boston compensation consulting firm, typical merit raises in 1991 will be about 5.3 percent of employees' salaries, the firm reports. Jim Hudner, a Wyatt analyst, says managers want to reward employees "who help them stay competitive."

WORKERS' COMPENSATION

Tip-Offs To Dubious Claims

You should be able to spot the signs of a possibly fraudulent claim for workers' compensation. The Atlanta consulting firm of Norred and Associates Inc. has compiled a list of possible signs that a worker's claim may not be honest. The firm suggests that you note whether the employee:

- Misses the first doctor's visit;
- Can't describe the pain, or is overdramatic;
- Delays reporting the injury;
- Reports Friday's injury on Monday;
- First reports the injury to a legal or regulatory agency;
- Reports the injury after missing several days' work;
- Changes doctors frequently;
- Is a short-term worker;
- Has a curious claim history.

WORKPLACE

Flexible Schedules Take Hold

A survey of 645 companies by the Towers Perrin consulting firm found the following types of alternative work schedules in use; some firms offer more than one type of alternative schedule.

Flexible Time:	50 percent
Part-Time Work:	47 percent
Job Sharing:	22 percent
Compressed Workweek:	16 percent
Part-Year Work:	7 percent
School-Day-Only Schedule:	4 percent

EMPLOYEE RELATIONS

Build Loyalty

Employees will be loyal to your firm if you're honest with them and show you depend on their work, human-resource experts say, but you also must play an active role in building loyalty among staff members.

Have periodic "career chats," one-on-one, with everybody in the company, advises William J. Morin, a New York consultant. He also is the author of *Trust Me* (Drake Beam Morin, New York), a book that deals with employee loyalty.

Morin recommends that you ask for frank answers from employees on how they want to grow—or *if* they want to grow—in the firm.

Be a "walk-around" manager, says Andrew Sherwood, chairman of Goodrich and Sherwood, a New York employment-consulting firm.

Sherwood's company found in a recent study that staff members' loyalty was the top concern of managers. According to Sherwood, employees value job recognition even more than a high salary. "Catch them doing something right," he suggests.

Remember employees' birthdays and anniversaries, Sherwood advises, and encourage cooperation.

And you'll score lots of loyalty points, he says, if you start a company softball team.

ACCOUNTING

CPAs Grow Wary Of Risk

Leery of liability and higher insurance costs, some certified public accountants are turning down small "high-risk" firms' requests for auditing services, says Howard Platzman, an analyst with the New York risk-management firm of Johnson and Higgins.

Business owners who have taken their accountants' audits as "guarantees of solvency," Platzman says, sometimes sue those accountants after the business fails.

That's why CPAs are backing away from "high-risk" clients, especially banks and thrift institutions, says Platzman. "The rules have changed on them. The accounting industry feels itself more at risk."

Steeper insurance costs are one factor. Allen Berger, a partner with the Chicago accounting firm of Blackman and Kallick, has seen his company's risk-insurance premiums soar in four years to $302,000 from $68,000. The firm's coverage has remained the same—though the deductible has quintupled, to $100,000.

"If this is the premium without a liability claim, what is it with a claim?" Kallick asks.

Small-business owners can help calm their CPAs' anxieties, Platzman suggests, by making sure the company's numbers are solid and "as transparent as possible."

NB TIPS

✔ Organize your paper into four stacks, says author Stephanie Culp: to do, to pay, to read, to file. You can overcome the wall of paper in your office with the hints offered in Culp's book, *Conquering the Paper Pile-Up* (Writer's Digest Books). This 160-page paperbound guide has a handy alphabetical listing that will help you make sense of the sheaves you keep.

To order Culp's book, send $11.95 plus $3.00 for postage and handling to Writer's Digest Books, 1507 Dana Ave., Cincinnati, Ohio 45207; or call toll-free with Visa or MasterCard, (800) 289-0963.

✔ Numerous books and brochures on business law, health care, labor issues, and taxes are available from the U.S. Chamber of Commerce.

To order the Chamber's free *Information Resources* catalog, call (800) 638-6582; ask for Publication No. 0077.

Franchisors and family-business owners will especially like two free Chamber brochures, *How to Succeed in Franchising* (No. 2015) and *How To Locate Information for Your Family Business* (No. 2014).

Both are available by calling (800) 638-6582. NB

Making It

Growing businesses share their experiences in creating and marketing new products and services.

PHOTO: ©HANSON CARROLL

How Two Ex-New Yorkers Send Greetings From Beautiful Vermont

Oatmeal Studios' *founders, Joe and Helene Massimino, and their staff turn out quirky, funny cards in their Rochester, Vt., headquarters.*

Many business people have thought about packing it in and moving to rural Vermont. Perhaps to a spot near a picture-book village like Rochester, population 1,400. We know just the place.

If you drive a mile or so south of Rochester on state Route 100, you'll see a road turning off to the right, over an iron bridge; the pavement gives out after a few hundred yards, and a dirt road continues into a valley surrounded by Vermont's picturesque wooded hills. It's the perfect location, you might think, for some truly rustic business—a blacksmith shop, say, where refugees from the big city could find peace by working with their hands. It's not a place where you would expect to find a modern two-story office building whose angles give it a faintly whimsical air. But there it is.

The building is the headquarters of Oatmeal Studios, a greeting-card company. Oatmeal specializes in cards (and note pads) whose humor is broad and friendly, but with just enough tartness to place them outside the greeting-card mainstream. The drawings are bright and simple—plainly contemporary, but not as aggressively sophisticated as those for some other "alternative" companies' cards.

Oatmeal has tried to appeal to a wide public, but without disappearing in the shadow of the giants of the card industry. So far, it has pulled off that trick: Sales in 1989 totaled $2.9 million, and President Joe Massimino expects them to reach $3.5 million in 1990. The company has 22 employees.

However unlikely Oatmeal's building and the scale of its operations, its cofounders at least fit the script: Joe and Helene Massimino, both 37, are migrants from New York City. They met there as college students, when she was studying art and he civil engineering. In 1973, they came to Rochester to visit a friend who was a skier, and they fell in love with the area.

Joe made the move to Vermont first, after dropping out of school; Helene says she "sort of commuted" between New York and Vermont until she graduated.

As a new Vermonter, Joe fended for himself—restoring cars, maple sugaring, selling firewood, renovating barns. After Helene finished school and moved to Vermont permanently, she worked as a free-lance artist. They married in 1978.

"I was doing different kinds of craft projects and selling them to a couple of stores," she says; among her "projects" were some silk-screened greeting cards. "They started to sell, and every time I'd go back, the owners would say, 'Why don't you do some more designs?'" So she did. "Then a sales representative saw them and got in touch with me. I didn't know what a sales rep was. Once I found out, Joe and I started to really consider it as a business."

The Massiminos attended some trade shows, Joe says, "and tried to gather as much information as we could," before launching a line of 36 cards in 1979. "Helene says we didn't know what we were doing," he continues, "but probably that was an asset. If we had sat down and totally researched everything, we'd have said forget it, we can't do this."

The company has grown steadily but conservatively, the Massiminos say, taking on little debt as it has built a product line that now embraces around 1,000 items. The company moved from "downtown" Rochester to its present building three years ago.

Helene no longer draws the cards herself, but she oversees the work of staff and free-lance artists; Joe concerns himself mainly with sales and marketing. Each gives the other feedback. Says Helene: "I think that one of the keys to being able to work together is to have that division of responsibility, but also to help each other."

If any one thing has been responsible for the Massiminos' success, Joe says, it is that they listen carefully not just to each other but also to their retailers and sales reps.

"That's crucial in any industry dominated by somebody else," he says. "We have to be better, we have to turn better, we have to be more profitable for the retailer."

And the Oatmeal name? It comes from a rabbit character who was on Helene's first two silk-screened cards. "It was just what we called him," she says.

—Michael Barrier

How He Learned To Put More Than Work Into His Business

Hard times can teach valuable lessons. Ronald E. Schmitz knows that very well.

Schmitz, 39, owns Ron's Cabinets, a Sauk Rapids, Minn., firm that builds custom-made wooden fixtures for both residential and commercial customers. Judges' benches, kitchen cabinets, hospital reception desks—all emerge from Schmitz's 34,000-square-foot plant. Sales hit \$3.5 million last year, and Schmitz expects \$4.5 million this year.

The St. Cloud-Sauk Rapids area, with a population of about 80,000, is uncommonly rich in cabinet shops—"you can buy a custom-built cabinet cheaper than you can buy a prefabricated cabinet," Schmitz says—but Ron's Cabinets is almost certainly the largest, selling to customers as far away as New Jersey.

The picture was very different 15 years ago, when Schmitz, then a journeyman carpenter, bought a woodworking shop. The former owner was supposed to stay on for six months or so, but he and Schmitz soon had a falling out, and Schmitz and his wife were left on their own. "We had to learn everything ourselves," Schmitz says.

Like many another small-business owner, Schmitz found himself doing almost everything, because he couldn't afford to pay anyone else to do it; by the middle of his first year, he had laid off several employees and was down to only two, plus his wife. Finally, after a year of 80-hour weeks, Ron's Cabinets broke even, on a gross of \$80,000.

It was around that time that Schmitz went to a seminar on management, "and that really got me excited. I realized that it wasn't just work that made a business successful. You had to take some time to plan. I cut back my working hours and set aside some time to train myself and to plan."

The lesson took, and by 1979 Schmitz was ready to move his growing company into new quarters in an industrial park. But then recession hit; Schmitz was doing nothing but residential work, and he saw the bottom drop out of his business. He lost \$25,000 his first quarter in the new plant.

"We had to do something," he recalls—and that something was to start bidding on commercial work. "I didn't know the bidding process. I looked at a blueprint and said, 'I can't do it.' I was so scared. If we hadn't had our backs against the wall, we probably never would have done it."

Because Schmitz was unknown to contractors, he had trouble getting them to take him seriously, "but if you were low enough in price, they always took a look at you." Finally he won his first big commercial job—\$75,000 for fixtures in a college dormitory in Fargo, N.D.—and there was no looking back. Today, about two-thirds of his company's work is for commercial customers.

Now, he says, the more demanding the job, the better he likes it: "I've found that if anything is easy, there's no money in it. So we're sticking with the hard stuff."

—Michael Barrier

PHOTO: ©STEVE WOIT

Minnesota cabinet maker *Ron Schmitz started as a journeyman carpenter; today he owns a company whose annual sales may soon top \$4 million.*

PHOTO © JAMES COOK

WATCH THE STATES

As the federal government eased its regulatory squeeze on business during the Reagan administration, state governments started tightening their grip on business. This sharply increased state activism is having a major impact on American enterprise.

By David Warner

In Oklahoma, Colorado, and California this year, grass-roots campaigns were launched to limit state legislators' terms. These moves are expected to intensify debate over whether time limits should be placed on congressional service. Oklahoma voters have approved the restriction, and drives in Colorado and California appear to have unstoppable momentum. Terry Considine, a state senator and entrepreneur who is sponsoring the Colorado initiative, expresses his motivation in business-related terms: "We have a political system that reinforces yesterday. We need to make big changes. We need lower taxes, which means less bureaucracy, and we need litigation reform and education reform."

Massachusetts' new mandatory health-care law is worrying many small-business owners, such as pub owner Robert Shaughnessy of Boylston. "It means I'm going to close down if it goes into effect in its current form," he says, assessing the measure's probable impact. It would cost him nearly $70,000 a year to provide health insurance for his 39 employees, Shaughnessy says, but "I didn't even come close to bottom-lining $70,000 last year."

New Jersey's labeling law has required the Marcal Paper Co., which uses various chemicals, to put more than 600 detailed labels on containers and faucets, says Michael Fowler, manager of environmental affairs at the Elmwood Park facility. "We had to spend a great deal of time and money" on implementation, he says. "We don't want to hide things from our employees, but when you're talking about labeling each and every valve in the ceiling, it gets rather cumbersome. ... Three-quarters of our efforts are wasted on [regulatory] overkill."

Colorado State Sen. Terry Considine's *campaign to limit terms of his state's lawmakers is stimulating national debate on capping service in Congress.*

Small-business people's various experiences with governmental developments at the state level spotlight a growing trend: Sharply increased state activism is having a major impact—for better or worse—on the way American enterprise operates.

Companies sometimes feel that impact immediately and directly as their own states act; they might feel it as their states adopt policies and programs that other states have initiated; or the state actions might fuse into a national trend affecting all businesses.

Ironically, the heightened state activism was initially driven by a landmark development at the national level. One of the basic goals that Ronald Reagan announced upon becoming president a decade ago was a "new federalism," in which the federal government would return to the states much of the power it had gathered unto itself over the previous half-century.

In detailing his goals, Reagan said:

"The Constitution provides clear distinctions between the roles of the federal government and of the state and localities. ... But in recent years, we have not adapted to new conditions. We have created confusion as to who is responsible for what. ...

"I propose that over the coming years we clean up this mess. ... The key to this program is that the states and localities make the critical choices."

What has happened since President Reagan set that course?

William Brown, president of the Council of State Chambers of Commerce, says there was a significant impact: "During the eight years in which [Reagan] was in office, there was a revolution in federal-state relations. The federal government backed out of many things ... and the states were expected to take up the slack."

Samuel Brunelli, president of the American Legislative Exchange Council (ALEC), an organization of 2,000 state legislators, says: "States are flexing their muscles, and they're becoming much tougher and more burdensome in regulations than even the feds on these issues. ... There *is* a dramatic shift, and more and more the decisions that are affecting business are being made at the state level by state legislators."

Business people generally expected that a transfer of power from the national to the state level would work to the benefit of the enterprise system. The theory was that state legislators are closer to the people and thus would be more conscious of such factors as local economic health and the job cli-

mate as they considered issues affecting business.

Moreover, it was said, states would be more likely than the federal government—with its entrenched lawmakers and vast bureaucracy—to seek bold, innovative solutions to existing problems and to respond rapidly to new ones.

The results for business have been mixed, however, and firms are watching developments with apprehension.

PHOTO: ©RICK FRIEDMAN—BLACK STAR

Robert Shaughnessy, *right, says he will have to close his pub if the Massachusetts law mandating health coverage for employees takes effect.*

In assessing the impact of state activism, business pays particular attention to actions—and their resulting costs and regulatory burdens—that are taken on fiscal matters, health care, environmentalism, and education reform.

Here is a look at developments in each of those areas:

Fiscal Matters

"Business should expect efforts by states to increase taxes on business," says James Barrett, president of the Michigan State Chamber of Commerce, "in order to meet tight budget situations and the desire on the part of some to expand government program activities, particularly in education, health, and the environment."

Ronald Snell, fiscal-program director for the National Conference of State Legislatures, points out that 24 states raised taxes in 1990, and he says a significant number of states are expected to do the same next year. The pace setters were New Jersey, with a $2.8 billion increase over three years, and Massachusetts, with a $1.2 billion increase for fiscal 1991, although rollback efforts are under way in both states.

"Business is willing to pay its fair share," Barrett says, "but those in government and advocates of more government programs and spending need to recognize that we're in an internationally competitive situation now, and government needs to focus on efficiency, just like the private sector does, in order to compete."

Barrett says fiscally hard-pressed states are caught in a vicious cycle: Higher taxes have curbed economic growth, and thus revenues have fallen, creating pressures for still more tax increases. Noting pressures for higher state taxes, he says that "the floodgates are going to open in 1991," but there will be "a tremendous tax revolt."

Signs of taxpayer backlash are already apparent. Tax-limitation proposals are on the ballots in this month's elections in Arkansas, California, Colorado, Massachusetts, Nevada, Oklahoma, Oregon, South Dakota, and Utah.

The New Jersey tax increase produced a firestorm of protest in that state, and incumbent lawmakers who supported it are bracing for taxpayer wrath at the polls next November.

Gov. James Florio, who was elected in a landslide only last November, has seen his popularity rating plunge below 25 percent as a result of his initiation of the tax plan. Another direct result of the increase has been a movement to seek a constitutional amendment establishing an initiative-and-recall process in New Jersey.

While the tax-increase states encounter more and more political and economic turbulence, the American Legislative Exchange Council notes, those states pursuing a more disciplined approach are actually better off financially. Says the council's Brunelli:

"The states that are going to less regulation, less taxes, more incentives and are creating a better business climate are gaining business, gaining jobs, having economic growth. We've proved around the world that the less government intervention, the lower the taxes, the freer the free-enterprise system is, the greater the growth."

Health Care

The Massachusetts health-care plan that threatens the survival of Robert Shaughnessy's pub and the jobs of his 39 employees offers a prime example of how states can be testing grounds for policies that may or may not have national application.

Massachusetts has enacted legislation requiring employers with more than five employees to provide health insurance to their workers or pay a payroll tax to the state. The plan would also provide insurance for the unemployed.

The first portion of the "play-or-pay" plan took effect last January. To pay for the administration of health insurance for the unemployed, the plan levies a payroll tax of $16.80 on each employee's first $14,000 of annual salary. The state bears the costs of the actual medical services for the unemployed, although the taxpayers ultimately pay the price.

But it's the second part of the plan that has many small businesses in Massachusetts looking for cover. Beginning in January 1992, employers must either pay a tax of 12 percent on the first $14,000 of each worker's salary or provide $1,680 worth of health-care coverage to each worker. The tax would finance coverage of the uninsured.

Pub owner Shaughnessy in Boylston says, "If it goes into effect in its current form, I will padlock my doors."

There are reports that many companies already are leaving the state for the friendlier climes of New Hampshire and Connecticut. Says Charles Baker,

co-director of the Pioneer Institute for Public Policy Research, in Boston: "The bigger issue isn't going to be so much those who leave, because for many companies, particularly the small ones, leaving is a major undertaking. . . . They just won't survive. And I think a lot of larger companies simply won't come here."

The business impact of the Massachusetts plan has not deterred some other states from looking into a similar mandate on health care. California has been considering legislation that would require all businesses to provide health insurance for their workers, and Maine, Michigan, New Jersey, Ohio, and Washington are contemplating either Massachusetts- or California-type plans.

At the same time, some states are modifying health-care mandates. Florida, Illinois, Kentucky, Missouri, Rhode Island, Virginia, and Washington have taken steps to make coverage more affordable for small businesses.

Virginia, for example, requires firms providing health insurance to include 24 coverage areas. Says Gerald Roscoe, president of Fitzgerald and Roscoe General Contractors Inc., of Buena Vista, Va., "In the past, we had done nothing in the way of health care because we're a fairly new company—2 1/2-years-old—and it's one of those things that you plan to pick up as you grow."

PHOTO: T. MICHAEL KEZA

Business partners *Robert Fitzgerald, left, and Gerald Roscoe welcomed Virginia's decision to let small businesses limit health coverage.*

Given the high cost of health care generally and the expense of the coverage mandates, Roscoe wasn't planning to offer health coverage to his 12 employees for two more years, he says. But he changed his mind and offered coverage after Virginia, on July 1, implemented a reduced-mandate law affecting firms that have fewer than 50 workers and did not offer health insurance in the past year.

Under the new provisions, small companies can purchase bare-bones insurance coverage for their workers. It must cover a minimum of two visits to physicians and 30 days of hospitalization a year as well as comprehensive prenatal, obstetric, and well-baby care, but it does not have to provide for many of the services mandated for workers in larger companies.

Current state actions on both expanding and contracting such mandates will continue to provide a basis for evaluating proposals for such coverage on the national level.

Environmentalism

Perhaps in no arena of state activism has business felt the crunch more than in the area of environmentalism. As the Reagan administration sought a better balance between environmental and economic factors throughout the 1980s, activists shifted the battleground to the states.

The result was a vast new complex of regulations that require businesses operating across state lines to commit the resources needed to deal with many environmental laws.

Sponsors of these specialized rules argue that states need them to meet localized threats to safety and health.

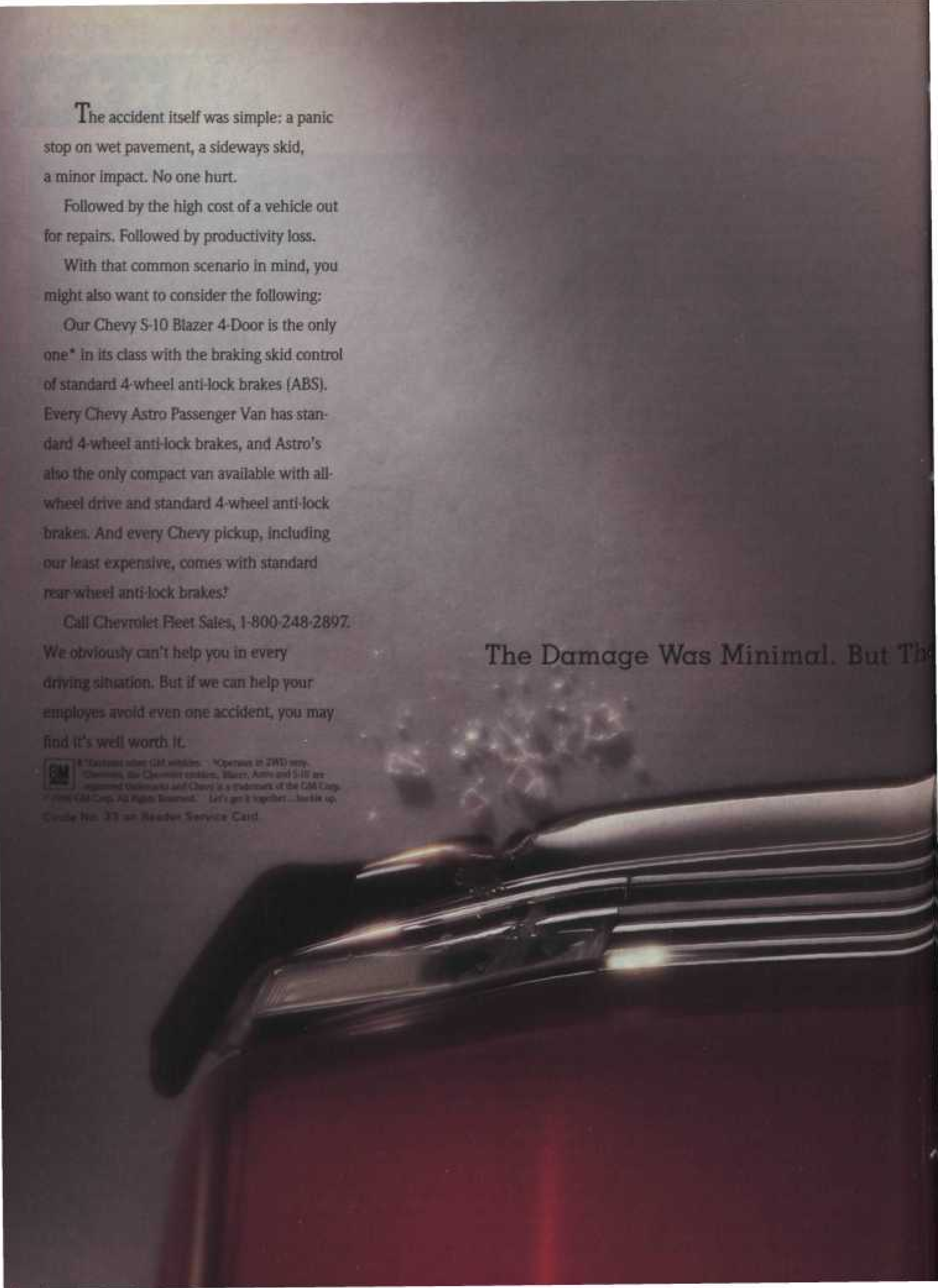
But some states' overzealousness has backfired. An example is New Jersey's Environmental Cleanup Responsibility Act (ECRA). Adopted in 1984, the law requires companies to obtain a clean bill of health from the state Department of Environmental Protection (DEP) for land they wish to sell or transfer. "It puts bureaucrats in the middle of real-estate deals," says James Sinclair of the New Jersey Business and Industry Association.

"[ECRA] has driven business crazy," says Sinclair. "It's a model of what not to do. Entrepreneurs should be coming in to take over these machine shops and small businesses that are for sale, and it's not happening because of ECRA, and we're not getting the cleanup."

A New Jersey Business and Industry Association survey of more than 2,200 New Jersey companies considering expansion found that nearly one-third of them were looking outside the state.

Marcal Paper Co., which employs 1,100 people, had to hire three part-time workers to help ensure compliance with the state's myriad and complex environmental laws.

"Three-quarters of our efforts are wasted on the overkill of regulations," says environmental manager Michael Fowler. He cites his state's community right to know/labeling law, which requires that the company label every container and faucet with a Chemical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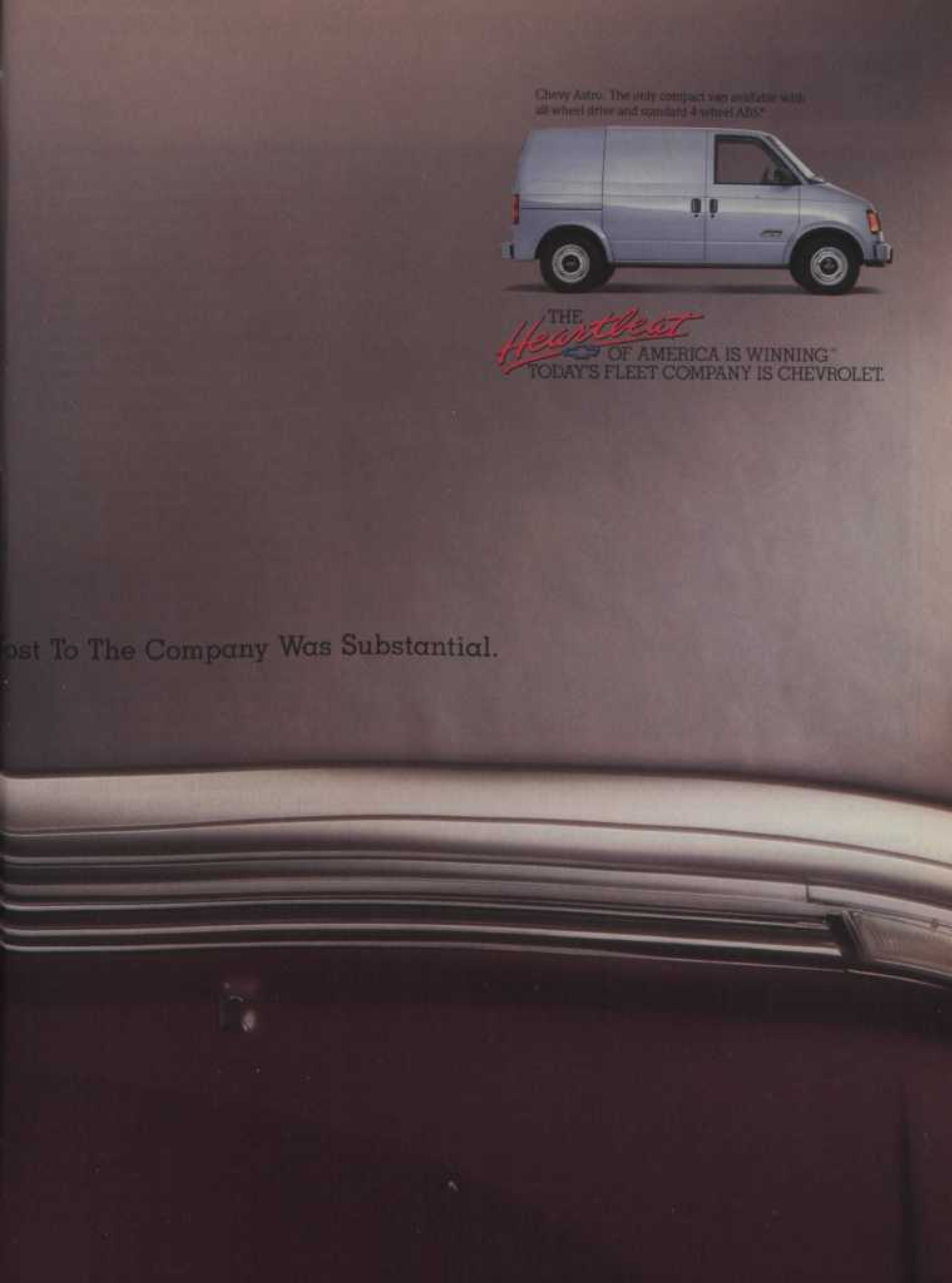
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Marcal makes household paper products from waste paper and uses various chemicals in the process. "You wouldn't believe the label that has to go on a bottle of bleach . . . things workers don't need or care to know," says Fowler.

Louisiana offers another example of why businesses are concerned about expansion of environmental activism in the states. The state's business community is worried about the potential impact of a pending environmental proposal on its economic-development efforts.

The Louisiana economy has been subject to the boom and bust of its primary industry, oil and gas, and has been offering tax exemptions to spur economic development. Chris Dicharry, tax counsel for the Louisiana Association of Business and Industry, notes that the incentives brought in $2.4 billion in investments in 1989-90. Under the proposed environmental regulation, however, a company's eligibility for the tax exemption would be determined by its grade on an environmental scorecard.

Gov. Buddy Roemer is holding up 200 applications for property-tax exemptions from businesses ready to invest millions of dollars in the state—creating thousands of jobs—until the state's Department of Environmental Quality decides whether to go ahead with the environmental-scorecard plan.

The plan, Dicharry says, could have a devastating impact on a state struggling to free itself from the reliance on a single industry subject to wide swings. "If companies have to pass some arbitrary environmental scorecard before they get the exemption, they may not bother looking to Louisiana," he says. "That hurts both the state's economy and its cleanup efforts."

PHOTO: C.JIM CHAPPELL

Mississippi businessman J.P. Mills *is pressing for education reforms that will enable students to become more productive workers.*

California voters consider an antibusiness ballot initiative known as "Big Green" on Nov. 6. The law would ban pesticides with even trace amounts of carcinogens, prohibit most oil drilling off the state's coast, ban chlorofluorocarbons—used in refrigeration and air conditioners—by 1997, and require severe cuts in carbon-dioxide emissions by 2010. The Massachusetts Legislature is considering a bill that contains similar restrictions.

Other states are contemplating various environmental initiatives—from packaging bans and mandatory recycling to hazardous-waste reduction and product labeling—that could cost business millions of dollars.

In Colorado, on the other hand, state lawmakers try to achieve a balance between the environment and the economy, says Joan Ringel, senior vice president of governmental and external affairs for the Colorado Association of Commerce and Industry. "Colorado is very sensitive to environmental issues," she says. "The Legislature, however, has taken a rather balanced approach to environmental legislation."

Paul Schauer, public-relations specialist with Gates Rubber Co. in Denver and a state Republican representative from Littleton, Colo., says the Legislature has tried to "put more confidence in the business community to do more self-policing." He views state responsibilities in terms that companies apply to environmental policies generally: "You've got to strike a balance between jobs and the environment to make it possible for businesses to function."

Education Reform

Education reform is a concern for everyone, from President Bush and state lawmakers to business leaders and educators. Two strategies are emerging among the groups. One is based on higher spending.

State legislators pressured by powerful teachers' unions and state education administrations have raised or attempted to raise taxes simply to provide more money for schools.

Jeanne Allen, policy analyst for the Heritage Foundation, a public-policy research organization based in Washington, D.C., says that many steps amount to no more than tinkering. "There are all these programs being bandied around," she says, "and educators saying we need more money for them. But a lot of them we've been doing for years."

Mississippi exemplifies the direction that some states have chosen on education. Earlier this year, Gov. Ray Mabus proposed a package of education reforms that included a $500 million increase in school spending. But the package "was more bureaucracy, more red tape, and more money to be put into teachers' pockets," says state Rep. Mike Gunn, R-Hinds County. He says 75 percent of the funds were for teachers' benefits.

J.P. Mills, owner and chief executive officer of Mills Oil in Tupelo, Miss., has paid the price for the state's failure in education and its age-old answer to that failure—money. "Lack of education reform in this state means that I haven't gotten people to come in here to fill out an application form for a job," he says.

"We spend a lot of money training workers on doing basic numerical calculations, operating a calculator, and basic things a salesman should know. The greatest problem we have is that people cannot read and they cannot comprehend."

Mills and Gunn, along with the Mississippi Economic Council and its Committee on the Future of Education in Mississippi, are pushing for another approach to education reform, one that would give parents more educational choices.

The plan is similar to one being considered this fall in Oregon, which would allow parents to choose the school they want their children to attend. Oregonians will vote Nov. 6 on the school-choice plan.

The various choice plans are designed to improve the quality of education through competition. When parents have choices other than the neighborhood public schools, those schools must perform better to retain students.

Says William Conerly, vice president and economist for First Interstate Bank of Oregon and a committee member of Oregonians for Educational Choice: "I'm real optimistic about what this [choice plan] will do for business. We think that in order to be an effective competitor in the 1990s and the 21st century, we're going to need to improve the skills level of our students. And competition among schools through choice is probably the best option."

Says the Heritage Foundation's Allen: "Empowering parents to have an opportunity to shop elsewhere and thereby giving schools an opportunity to beef themselves up or maybe lose business—that's been shown to be very, very successful in almost every single area where it's being used."

Eight states—Arkansas, Idaho, Iowa, Minnesota, Nebraska, Ohio, Utah, and Washington—already offer various forms of educational choice, and officials in 14 others have expressed interest, Allen says.

If money alone continues to be promoted as the answer to the country's education woes, Allen says, business will soon find itself out of money and out of workers. "The long-run consequences are going to be that we will fail to attract anybody who can work in our world," she says. "Business is going to be at a loss for strong, competitive workers." Companies spend more than $40 billion a year on training employees, according to Allen.

PHOTO: ©ALAN ZOROW

Michael Fowler, right, and Peter Marcalus, *officials of a New Jersey paper company, say state environmental laws are unnecessarily burdensome.*

In addition to state action in such specific areas as education and the environment, the question of whether legislative terms should be limited is becoming a prominent issue because it could become a bellwether for similar debate at the national level.

The movement is widely seen as an outgrowth of the disenchantment that voters showed in this year's elections by their widespread opposition to the entrenched political establishment.

In Massachusetts, for example, a controversial educator and political newcomer defeated a party leader and state-government veteran in the race for the Democratic nomination for governor.

Voters in Oklahoma this fall overwhelmingly approved an initiative limiting state lawmakers to 12 years in office.

The Colorado initiative—to limit the state's members of Congress to 12 consecutive years and Colorado's state lawmakers to eight consecutive years—is being watched closely. According to the initiative, previous service would not be counted. The clock would start to run for both new and incumbent legislators when they took office after approval of the limitation.

The Colorado plan has encountered opposition on the ground that extending it to Congress would conflict with provisions of the U.S. Constitution, which sets eligibility standards for members of Congress.

Its backers contend that term limitation would guarantee that Congress would remain close to the grass roots through sharply increased turnover. Opponents argue that the remedy is excessive and would deprive the nation of the services of experienced lawmakers. They say the present system in which voters retain the right to fire or retain incumbents based on their records is the most viable system.

But Colorado state senator Terry

The States' Expanding Regulatory Reach—And Ways To Keep Up On It

State activism in the regulatory area is creating a serious problem for companies that operate across state lines, particularly those that do business in most or all of the 50 states.

Kraft General Foods, for example, has to be sure that none of its aseptic packages—which are made of plastic, paper, and foil and extend the shelf life of the contents—are sent to Maine. That state recently banned aseptic packaging on the ground that it is not recyclable.

Vermont has banned use of chlorofluorocarbons in automobile air conditioners, effective with the 1993 model year. Sponsors assert that chlorofluorocarbons contribute to the greenhouse effect.

Illinois is claiming it has authority to bring criminal charges against executives of companies for alleged unsafe working conditions, even though the federal Occupational Safety and Health Act establishes exclusive federal jurisdiction in this area.

Automobiles sold in California must meet that state's special emissions standards.

Moreover, the trend is toward even wider state regulation of businesses, which are becoming increasingly hard pressed to keep up with pending and enacted laws that affect them and to keep informed on the massive amounts of data needed to comply with those laws.

"If you have a patchwork quilt of laws across the country, it's pretty hard to market nationally," says Richard Badler, director of public affairs for Kraft General Foods in Glenview, Ill. He said the Maine law against aseptic packaging was indicative of how meeting varying state requirements "would become a huge problem for us."

The Vermont ban on chlorofluorocarbons comes at a time when the Du Pont Co. is seeking an alternative that may not be available by 1993, notes Michael J. Stanton, director of state relations for the Motor Vehicle Manufacturers Association. As a result of Vermont's action, he says, its residents will be denied air conditioning in new vehicles.

Illinois' claim of authority to bring criminal charges in workplace-safety cases has been upheld by the state's Supreme Court. But Stephen A. Bokat, vice president of the National Chamber Litigation Center, says the decision "ignores the express intention of Congress to pre-empt the field of workplace safety and health with the Occupational Safety and Health Act. If allowed to stand, the decision will throw the enforcement of safety and health regulation into disarray."

PHOTO: ©JOHN ZOINER—UNIPHOTO

Food packaging *is an area in which state regulations are proliferating.*

California's specialized requirements on automobile emissions could be adopted by other states.

"The states are becoming more active in this whole arena of emissions," says the motor-vehicle association's Stanton.

Bokat of the National Chamber Litigation Center, which is the public-policy law firm of the U.S. Chamber of Commerce, says the problem of fragmented regulation is "getting worse."

He says two factors are at work. One is the extent to which states "moved in to fill the void" of federal deregulation. The other factor, says Bokat, is Supreme Court conservatism that "does not necessarily translate into pro-business" positions because it tends to recognize states' rights where federal jurisdiction is not explicit.

One reason for business's concern about state activity is the sheer volume of legislation; more than 215,000 bills were introduced in state legislatures nationwide in 1987-88, nearly 20 times the number introduced in Congress over the same period.

How does a business stay current on state activity?

"State chambers of commerce—and even many local chambers—are excellent sources of information on laws and regulations affecting business," says Bill Mitchell, manager of the Office of State and Local Chamber Relations for the U.S. Chamber of Commerce. "They're in business to represent business in state legislatures."

The U.S. Chamber offers a publication listing state chambers and similar business organizations in all 50 states: *1990 Staff Directory—State Chambers of Commerce and Associations of Commerce and Industry.* It can be purchased for $7 (add $1.95 for shipping and handling) from the U.S. Chamber of Commerce, 1615 H Street, N.W., Washington, D.C. 20062. Specify publication No. 0214.

The newly formed National Resource Center for State Laws and Regulations has a 50-state network that offers to "help American business monitor and respond to proposed new taxes, laws, and regulations in the 50 states." Details of the effort are available from the organization at 3600 Glenwood Ave., Suite 100, Raleigh, N.C. 27612. The phone number is (919) 781-7170.

The American Legislative Exchange Council is an organization of state legislators and business members who support "the conservative, free-enterprise agenda." Additional information is available from the council at 214 Massachusetts Ave., N.E., Washington, D.C. 20002; (202) 547-4646.

The National Conference of State Legislatures Foundation, 1050 17th St., Suite 2100, Denver, Colo. 80265, provides reports on health care, education, the environment, and other issues to its business members. The phone number is (303) 623-7800.

Considine, the author of that state's limitation plan, says the present system is not working effectively. He approaches the subject from his entrepreneurial background as the owner of gasoline stations, convenience stores, and environmental laboratories. He says:

"I know firsthand how dramatically American business life is being transformed by international competition, technology, and other factors. I've concluded that government doesn't work very well.

"Part of what motivates me is the sense that we need to make big changes. The system is gridlocked. We need a political system that is more dynamic; it needs to be more competitive, and most political races are not competitive. We need turnover. I'm against tenure, whether it is a schoolteacher who can't be fired or a politician who can't be voted out of office because of the power of incumbency. Right now, a great many voters in Colorado are alienated because they don't think it makes any difference who wins."

Considine says that opening the system through term limitations would give more citizens an opportunity to serve, "and they will have a greater impact because they will approach their jobs as a public service rather than a political career."

Whatever the impact of pressures such as term limitations and tax revolts, the state activism launched not only by the New Federalism but also by the increasing complexity of government is a reality that business will be dealing with well into the next century.

The question is whether business will be able to channel that activism into forms that buttress the enterprise system.

The only certainty is that state legislatures have undergone permanent change.

As president of Stateside Associates, an Arlington, Va., consulting firm that helps companies track state issues, Constance Campanella keeps an expert eye on the changing federal-state relationship. Business should realize, she says, that "the state legislatures of the past, which were seen as backwaters, as the less important arenas of public policy, are gone.

"They're dinosaurs." NB

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Leonard I. Rippa
Business Manager

MANAGING

Planning For The Disabled

Complying with the law for disabled workers and customers will be easier for small firms that make plans now.

By Bradford A. McKee

By January of 1992, many businesses will have to be ready to serve disabled people as they do all other customers. By July of that year, those firms should be ready to hire disabled people and integrate them in the workplace with all their other employees. By January of 1993, any new building must have complete access for people with disabilities.

Have you thought of how you might meet these deadlines?

The requirements are set forth in the recently enacted Americans with Disabilities Act, which some legal experts say is the most sweeping civil-rights statute since the 1964 Civil Rights Act. The Library of Congress' Congressional Research Service says about 43 million Americans, or about one-sixth of the population, have some sort of disability.

PHOTO: ©TERRY ASHE

EEOC Chairman *Evan J. Kemp Jr. seeks the business community's views on the new law for the disabled.*

Although parts of the new law don't affect the smallest firms, chances are good that your company will have to comply with it in some way. Small-business owners should plan now to follow the measure's basic provisions, legal analysts say.

The statute's mandates seem daunting, and the financial stakes are high for avoiding lawsuits under it. But business owners who get a head start toward complying with the law can avoid going to court, says Nancy R. Fulco, human-resources attorney for the U.S. Chamber of Commerce, in Washington, D.C. However, Fulco says, "any business owner who doesn't start planning *now* and waits two years will get caught unaware" of the law's rules and could pay heavily.

The regulatory impact of the law for the disabled is comparable with that of the Occupational Safety and Health Act of 1973, says John Tysse, a legal analyst with the Labor Policy Association, in Washington. "It's going to take a major education for employers to learn to comply with the law," he says.

To get that education, business owners should look to groups that help companies assimilate disabled employees and customers. For example, the Job Accommodation Network of America Inc., in Morgantown, W.Va., offers free consulting services for employers seeking ways to accommodate disabled individuals in the workplace. (See the box on the following page.) Barbara Judy, manager of the program, says an employer wondering whether a disabled person would work out in a specific job can call the organization for help. "We will tell you if success is unlikely," she says. About 64 percent of the 600 calls she receives each month from companies result in the hiring of a disabled person, she adds.

Judy says that 81 percent of the changes that firms make to accommodate the disabled cost $1,000 or less, and of those, 31 percent cost "absolutely nothing."

Moreover, by working with the federal agencies that write the regulations, businesses can take part in shaping fair, well-rounded rules for applying the law. Evan J. Kemp Jr., chairman of the federal Equal Employment Opportunity Commission (EEOC), told *Nation's Business* that one of the hardest parts of writing fair regulations is "getting the input from as many different groups as possible" and responding to that input. "We want to hear from the business community," Kemp said. "We want to hear from everybody who's going to be concerned with this act."

Following are several issues that the new law has raised for small businesses, followed by details of its enforcement procedures and its penalties for noncompliance.

Issues That Concern Business

The law for the disabled affects employment, public and private transportation, public accommodations, and telecommunications. Its major impact on business will be in employment and public accommodations.

Employment. The law's employment provisions begin to take effect in July 1992. For two years from that date, the law exempts employers with 25 or fewer employees. Starting in July 1994, only employers with fewer than 15 workers will be exempt.

The law bars bias against the disabled in all areas of employment, including hiring, firing, training, promotion, and benefits. The measure protects people with most physical or mental impairments and those with a record of such impairments. It also shields those "regarded" as disabled (such as a burn victim with severe scarring but no debilitating problem) and those who have disabled relatives or close friends for whom they must provide care.

To fall under the law's scope, a disabled applicant or employee must be able to do the "essential functions" of a job. The employer, however, must make "reasonable accommodation" to help the disabled person work, unless it would cause "undue hardship."

Employers should start now to decide which are the "essential" tasks of jobs in their firms, says Larry Pencak, executive director of Mainstream, Inc., a Washington-based consulting group that helps disabled men and women enter the work force. "If you've done an 'essential functions' list, you're in the driver's seat," Pencak says, because in

enforcement, the law gives a say to firms with specific job outlines.

The law bars employers from entering agreements that may result in discrimination against a disabled worker. For instance, an employer cannot offer a training program away from the job site if the disabled employee would have no way of joining the program.

Employers must be careful about their hiring practices. Medical examinations for jobs are now illegal before the employer makes a job offer. Pre-employment medical exams following a job offer are permissible if they relate to the job and are given to all applicants for the job. Drug testing is allowed under the law and does not count as a medical exam.

Past illegal use of drugs is protected as a disability, but the law does not protect current illegal use of drugs. The same rules apply for alcoholism.

The law for the disabled does not affect an employer's insurance practices.

Public Accommodations. The public-accommodations portion of the bill affects private businesses serving the public, and it takes effect Jan. 26, 1992.

The new law guarantees disabled people the chance to partake "fully and equally," like anybody else, in a business's services and goods. Firms must make any needed changes in this regard unless such changes would "fundamentally alter" the nature of their product or service.

For example, a store would not have to write all of its price tags in Braille for visually impaired customers; instead, a salesclerk simply would have to be on hand to read prices to such customers.

Businesses also must get rid of structural barriers to the disabled, as long as such removal is "readily achievable." Elevators will be required in buildings higher than three stories and in businesses with multistory floor space occupying more than 3,000 square feet per floor. Moreover, in a few circumstances, elevators will be required below those thresholds.

All new construction, upon first occupancy, must be "readily accessible" as much as possible to the disabled starting 30 months after the law's enactment, or January 1993.

Enforcement Regulations

The EEOC is to issue rules on the law's employment provisions within a year of the measure's enactment. How will the rule writers interpret Congress' language in the law? Terms such as "reasonable accommodation" and "undue hardship" are ambiguous, say some legal analysts.

"We still have problems ahead" with the regulations, says the Chamber's Fulco. "Proponents of the law tell me I'm wrong. I hope I am."

Christopher G. Bell, who is an assistant to EEOC Chairman Kemp and is expected to be close to the process of writing the law's employment rules, says the more vague terms will be made explicit both in the regulations and in "subregulation" materials, such as technical-assistance manuals that the EEOC will publish.

The Department of Justice and the Department of Transportation will make the rules on public accommodations and transportation. Rules covering access to public places will follow guidelines of the U.S. Architectural and Transportation Barriers Compliance Board.

Businesses can participate in the drafting of regulations. The federal agencies will have to issue proposed regulations and publish them in the Federal Register. This is followed by a public comment period that lasts 30 to 90 days, during which time businesses and trade groups can express their concerns about the rules to the agencies. The agencies will review the comments and possibly redraft the rules accordingly. Then the agencies will issue final regulations.

Enforcement of the law is expected to be mostly complaint-driven. Individuals with employment grievances will have to file complaints with the EEOC. That agency will determine what action, if any, to take against an employer and will decide whether to take the case to court.

Complaints about public access will be heard in court directly, without administrative hearings.

Penalties

The new law's penalties are problematical because the law allows plaintiffs the same remedies as those contained in Title VII of the Civil Rights Act of 1964. Currently, Title VII remedies allow a federal judge to award back pay, order reinstatement to the job, and order an end to discrimination.

But that may change. There are efforts in Congress to intensify Title VII remedies. The proposed remedies would include jury trials, with the potential for unlimited punitive and compensatory damages, says the Chamber's Fulco. Such relief provisions, she says, would raise the financial stakes greatly for business owners under not only the 1964 civil-rights law but also the law for the disabled.

Nonetheless, businesses need not worry about going to court under the new law if they prepare themselves well for compliance. Granted, parts of the law for the disabled appear vague and complicated, and the law affects obscure aspects of a company's operation. But firms that develop plans for complying probably won't find themselves breaking the law.

Business owners should look around their firms for trouble spots, such as hard-to-reach public areas, and get help to fix them. The groups listed on this page can help business owners make their firms accessible to all individuals.

By voicing their views to regulators before the final rules are written, business people will stand a better chance of finding that the law for the disabled is in line with their needs.

Says Kemp at the EEOC: "The biggest barrier to hiring the disabled is attitudinal." And Kemp—himself disabled—sees those barriers coming down. NB

Resources For Small Firms

These resources can help business owners learn how to comply with the Americans with Disabilities Act of 1990:

What Business Must Know About the Americans with Disabilities Act, a compliance manual from the U.S. Chamber of Commerce. The price is $20 for U.S. Chamber members, $33 for nonmembers.

To order, call (202) 463-5533, or write to ADA Guide, Resources Policy Department, 1615 H Street, N.W., Washington, D.C. 20062. Please refer to Publication No. 0230.

The Job Accommodation Network (JAN), a branch of the President's Committee on Employment of People with Disabilities, provides free consulting services for employers looking for solutions to accommodating disabled individuals in their workplace and offers counseling with its technical experts. Call JAN at 800-JAN-7234 (in West Virginia, 800-526-4698) or at (304) 293-7186.

Mainstream, Inc., a private, not-for-profit organization, helps disabled individuals move into the workplace and publishes guides for employers on hiring the disabled. Contact Mainstream at 1030 15th St., N.W., Suite 1010, Washington, D.C. 20005; (202) 898-0202.

The Architectural and Transportation Barriers Compliance Board, a federal entity, has a technical-assistance hot line for organizations that must comply with the disabilities law: 800-USA-ABLE.

POSTAL SERVICE

High-Stakes Postal Talks

Contract demands of the postal unions could push mail rates out of reach for some firms.

By Albert G. Holzinger

Contract negotiations under way in Washington between U.S. Postal Service officials and leaders of the major postal unions could ultimately alter the ways you communicate with your customers, family, and friends.

Unless postal managers persuade the leaders of the four unions representing more than 600,000 workers to show "restraint" in contract demands, operating costs for the Postal Service will continue increasing—and driving up postal rates faster than inflation. That in turn could prompt many businesses and individuals to seek other means of dispatching their messages.

A business might find, for example, that it would be more cost-effective to telecommunicate bills to customers and receive their payments electronically, to contract for door-to-door delivery of ads, and even to send letters by fax.

To postal officials, the term "restraint" means wage and benefit increases below those of most other private-sector workers through the mid-1990s, plus added authority for managers in hiring and assigning personnel at more than 40,000 workplaces.

The Postal Service raised rates an average 17 percent for all classes of mail just three years ago; a proposed average 19 percent increase currently is under review by the independent Postal Rate Commission.

The previous increase and recent advances in communications technology, notably the availability of low-cost facsimile machines, have had a dampening effect on mail volume. While total volume continues to rise, its rate of growth slowed markedly last year, according to the Postal Service.

The pending record rate increase, scheduled to take effect early in 1991, eventually could erode volume much further, despite Postal Service projections to the contrary. The proposed rate hike has led a growing number of business mailers to begin exploring the feasibility of other means of delivery.

Postmaster General Anthony M. Frank concedes that the Postal Service's inability to check future rate increases probably would result in its widespread decline. "If we have another rate increase of the magnitude [of the one just proposed], the Postal Service as we know it will be vastly changed," Frank told *Nation's Business* last spring. In a statement to negotiators on the first day of contract talks, in late August, Frank elaborated: "The competitive environment in which we operate is giving our customers—who are concerned about rising postal costs—many more options when choosing a communications medium today. Union leadership and postal management must appreciate the dangers of noncompetitiveness to our very survival."

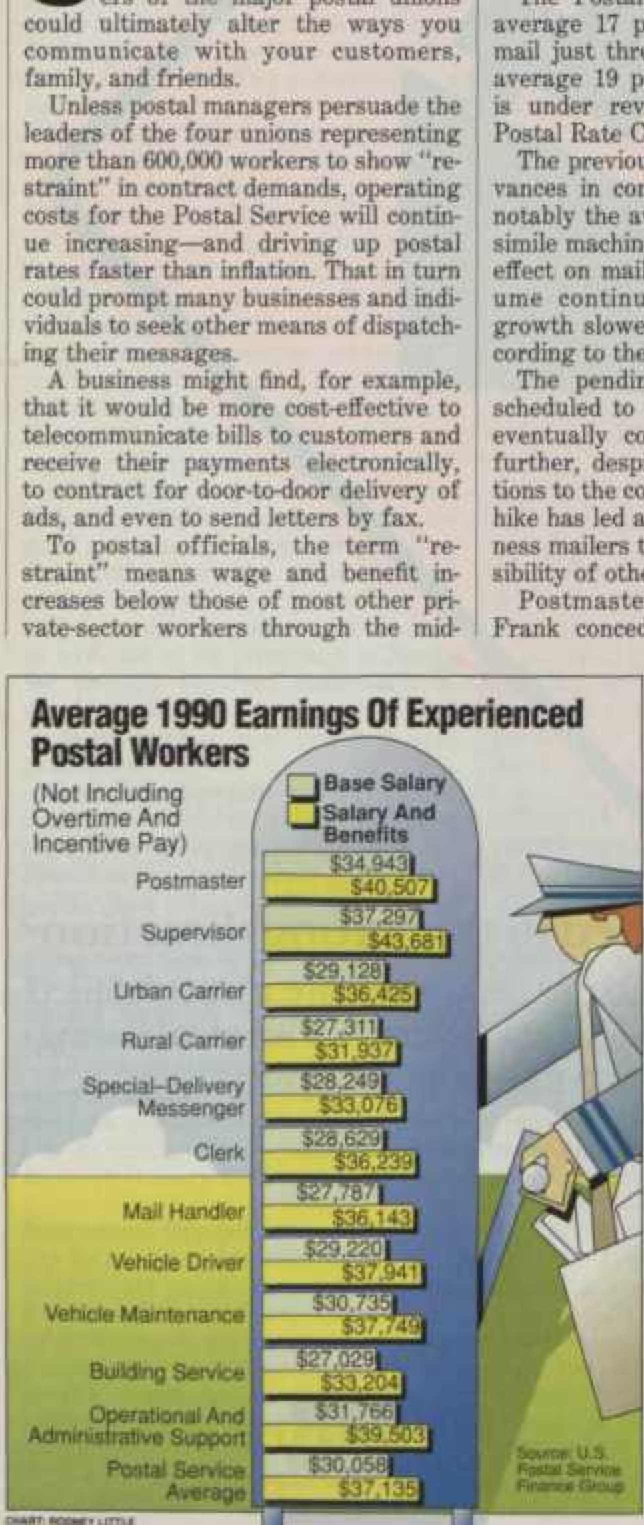


CHART: RODNEY LITTLE

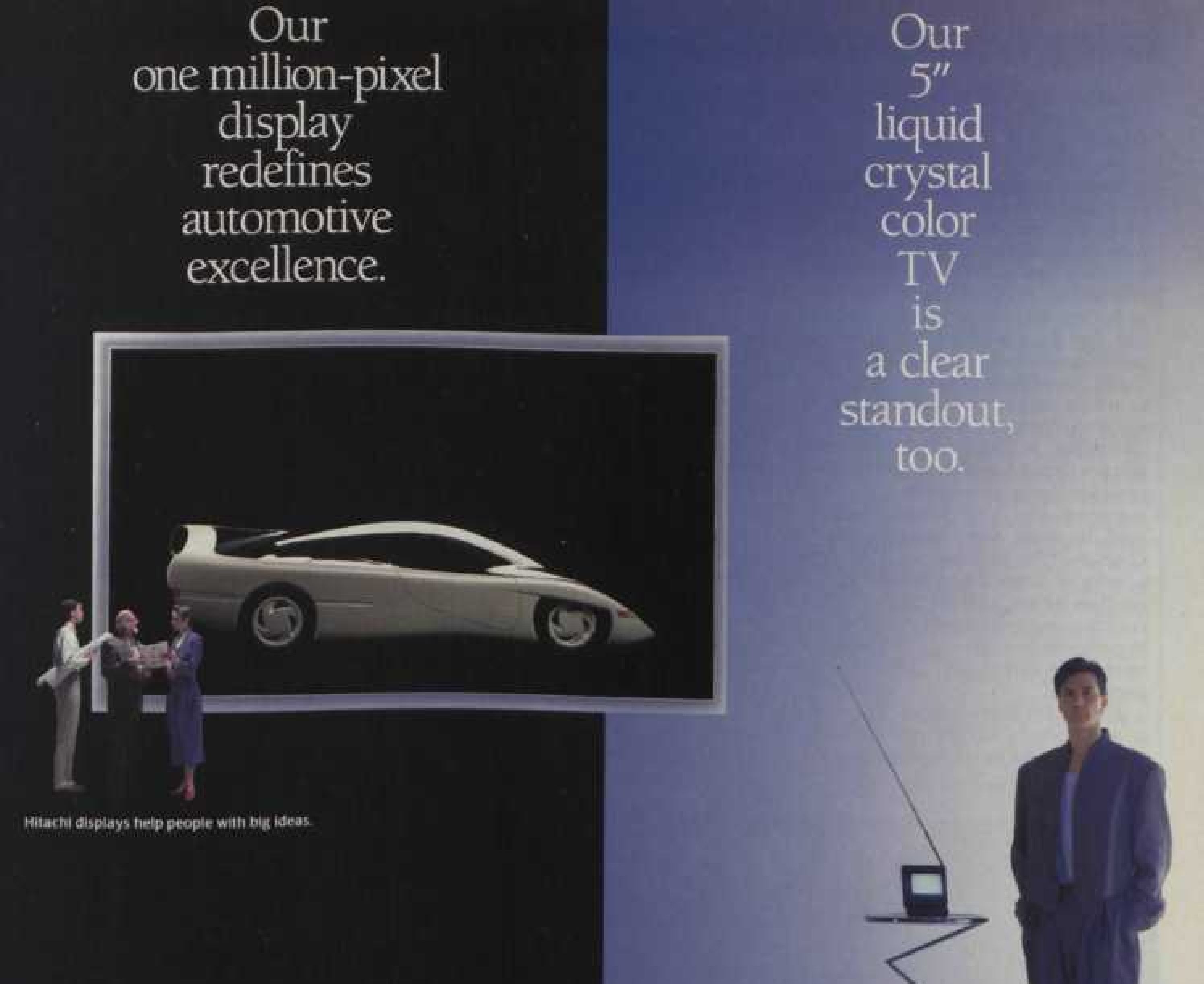
The linkage between postal labor costs and postage rates is clear. The Postal Service spends about $32.5 billion, or approximately 83 percent, of its roughly $39 billion annual budget on wages and benefits. According to the Postal Service's Finance Group, the average annual base salary of all but newly hired postal employees in a broad range of job categories is $30,058 plus $7,077 in benefits, for a total of $37,135. Overtime and premium pay routinely push earnings over $40,000, says Martin Lefkowitz, an economist with the National Chamber Foundation, a research organization affiliated with the U.S. Chamber of Commerce. That is about twice the compensation of average private-sector employees, Lefkowitz notes.

Management and labor have pledged not to negotiate their new contract in the press. Nonetheless, David H. Charters, the postal official with functional responsibility for the negotiations, says "it's not a bad assumption" that the Postal Service hopes to hold pay increases over the life of the contract to 2 percentage points below advances in the employment-cost index (ECI), a measure of private-sector pay.

This goal could be met in many ways, says Charters, whose title is senior assistant postmaster general for the human-resources group. For example, he says, wage hikes of existing employees could be pegged at 1 percentage point below increases in the ECI, while the starting salaries of new hires could be reduced 10 percent from current levels. "We're trying to keep as open a mind as we can about all the possibilities," says Charters.

Getting postal-union leaders to accept only modest wage hikes will be difficult. Mo Biller, president of the American Postal Workers Union (APWU), which represents the largest number of postal workers, repeatedly has declared that he will be looking for a "substantial increase" in wages and benefits for his 334,000 members. Less vocal than Biller but also seeking to raise the living standards of its members during ongoing contract talks are leaders of the three other large postal unions.

Still, Charters is confident that a sat-



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*US$44,797 million; net sales for the year ending March 31, 1990. US$1=¥158.

HITACHI

isfactory wage accord can be reached.

The ongoing negotiations are about much more than wage levels, however.

The Postal Service is in the midst of a multiyear automation program with a price tag that will exceed $10 billion. When new mail-handling equipment is fully deployed and mailers prepare and sort their mail accordingly, many postal jobs will be vastly changed. There will be far less manual sorting, for example, and far more machine operation and maintenance work.

The Postal Service says that in order to get the maximum return on its automation investment, it needs much more "flexibility" in hiring and assigning employees than it has under current collective-bargaining agreements. "The way our operations are changing, we do need to make some changes," says Charters. "For example, we think there is more of a role for part-time employees than we are currently allowed." Under its present contracts, which expire at midnight Nov. 20, only 10 percent of workers in larger post offices can be part-timers.

Also on the Postal Service's wish list is authority to employ more "casual workers"—employees typically paid $5 to $8 an hour and limited to 180 days of work a year. In addition, the Postal Service wants added authority to assign employees to two or more jobs, even if those jobs are under the jurisdictions of different unions, and more latitude in reassigning workers to different post offices in the same city or in others, as mail volume dictates.

Business organizations believe that gaining some or all of these management prerogatives is essential for moderating future rate increases. Work-rule flexibility is "imperative," says Jeffrey H. Joseph, vice president for domestic policy of the U.S. Chamber. "The current collective-bargaining agreement [with the postal unions] is clearly out of line with the [automation] goals of the Postal Service at this time."

Unless postal managers persuade the unions to show "restraint" in contract demands, operating costs will continue increasing.

Charters believes there is a relatively good chance of winning much of this flexibility from the unions: Postal management "has the sense that by the time we get through . . . we will be able to make a fairly convincing case that many of these changes ultimately would help them."

There is far less reason for optimism about winning acceptance of additional contracting-out of jobs to the private sector. Since its inception, the Postal Service has been contracting out some work. Its unions have grown increasingly testy about this practice, fearing that contracting-out and automation could reduce their membership rolls significantly. (The Postal Service has eliminated about 23,000 jobs through attrition in the past year alone.)

The Postal Service announced this past summer that it tentatively planned to staff with contract employees a new type of automated equipment in remote locations that allows bar codes to be affixed to mail with incomplete or handwritten addresses. This move would save about 12,000 jobs and a total of about $4.3 billion over 10 years, the Postal Service says.

Business mailers also are supportive of contracting-out. "The Postal Service needs to do what business has always done: Determine how to provide the best possible service at the least cost," says the Chamber's Joseph.

But Biller, the APWU president, has complained about the Postal Service's contracting proposals and has pledged to try to block future contracting-out.

In view of this labor-management conflict and others, it is a reasonable guess that negotiations will reach an impasse and be decided by arbitration, as have three of the past four contract talks.

Yet despite some occasional rhetoric, both sides are adopting a professional, low-key approach to the talks at this point and are at least publicly maintaining that their goal is to reach agreement themselves.

But no matter how the Postal Service's new collective-bargaining agreement is reached—whether through negotiation or arbitration—its provisions surely will influence the ways that you and your business communicate with others in the years ahead. NB

FINANCIAL MANAGEMENT

Unfreezing The Estate Freeze

Changes in estate-tax rules could bring relief for families that want to keep their companies in the family.

By Joan Szabo

Business is continuing to press for legislation to repeal a provision in the tax code that makes it virtually impossible for family firms to pass on their business from one generation to the next without suffering burdensome tax consequences.

The controversial provision—Section 2036(c)—effectively prohibits the use of the estate "freeze" as a way to perpetuate family businesses in the U.S. Enacted without congressional hearings or debate, the provision was passed as part of the 1987 Omnibus Budget Reconciliation Act.

Without the freeze, the tax cost of transferring a family business from parents to children is often prohibitively high. In many cases, the heirs may be forced to sell the family firm to pay estate taxes.

Family firms are affected most by estate taxes because the full value of a parent's business can be included in the parent's estate when he or she dies.

For those who are affected by it, the estate tax is among the highest taxes individuals pay. It starts at 37 percent for estates larger than $600,000, and it can climb to 55 percent. The first $600,000 of an estate is exempt from the federal estate tax. The top marginal rate is 60 percent, as a result of a 5 percent surtax on estates valued at more than $10 million.

The estate freeze, however, allowed a business owner to recapitalize the stock of the business, creating a preferred voting stock and a nonvoting common stock.

The value of the preferred stock generally equaled the value of the corporation and paid dividends.

The value of the common stock was relatively low at the time of the freeze and did not pay dividends. The owner gave or sold the nonvoting common stock to family members and retained current value and control. In this way, the family did not pay estate taxes on any appreciation in the value of the business between the time the common stock was transferred and the time the owner died.


PHOTO: ©JOHN McGRAIL

Manufacturer *Floyd Steinmetz fears that his son, Michael, someday might have to sell the family firm to pay estate taxes.*

Section 2036(c) was enacted to correct what was viewed by the Internal Revenue Service as abusive practices in valuing the common stock of family businesses. As a result of these abuses, the IRS claimed, family firms were not paying enough tax when transferring the stock.

Under 2036(c) regulations, if parents transfer ownership of the future growth of their company to their children and retain minimal ownership or income from the business, all growth in the value of the previously transferred interests can be taxed in the estate.

The following example demonstrates how the lack of the freeze substantially increases the cost of passing on a business. A shoe company launched in 1955 now is valued at $2 million. The owner wishes to retire and transfer operation and ownership to his children. If the estate freeze were permissible, the owner could freeze the value of his interest in the business and transfer future growth to his children. Then, if the owner were to die eight years later, say, and leave a business valued at $4 million, the heirs would pay estate taxes of about $320,000.

In the absence of an estate freeze, however, the potential estate-tax liability on a $4 million business could exceed $1.3 million. (The tax estimates reflect more than simply the company's worth multiplied by current tax rates. The estimates take into account additional tax calculations—apart from an estate freeze—that would come into play in the passing of a business of this size from one generation to the next.)

Floyd Steinmetz, 64, is one business owner who feels the future of his family firm may be in jeopardy if current estate-tax rules are left untouched. He owns Steinmetz & Son, a company that manufactures polyurethane parts for industrial machinery. Founded by Steinmetz 22 years ago, the Moscow, Pa., firm employs 18 people and has annual sales of approximately $2 million. Steinmetz says he worries that his son, Michael, who works in the business, might have to sell the company to pay federal estate taxes if changes are not made in the current estate-tax rules.

The younger Steinmetz says small firms typically are cash-poor. "We don't have portfolios with $5 million worth of stocks, bonds, and money-market accounts. What we have is land, buildings, machinery—nonliquid assets that will have to be sold."

The detrimental impact of Section 2036(c) is generating such concern among small-business owners and many lawmakers that the repeal effort is gaining a good deal of momentum. Last year the Senate Finance Committee indicated it was willing to repeal the controversial provision.

"This year there is strong sentiment among congressional members that there ought to be a way of passing on a family business without being forced to

sell the company," says Thomas P. Ochsenschlager, a partner with the accounting firm of Grant Thornton. He is in the firm's federal tax services office in Washington, D.C.

At the center of the legislative effort is a bill introduced by Rep. Dan Rostenkowski, D-Ill., chairman of the House Ways and Means Committee. The measure would replace Section 2036(c) with new rules to evaluate various classes of securities used in family-business transfers. The legislation, H.R. 5425, increases the gift-tax consequences of a freeze and, unless significant changes are made, would severely limit the use of the freeze by family businesses.

During recent hearings before the Senate Finance Committee on Section 2036(c), David R. Burton, manager of the Tax Policy Center for the U.S. Chamber of Commerce, told lawmakers that the business organization has actively supported repeal of the provision. "For three years a cloud of complexity and confusion has hung over the entire family-business community. There is now a consensus that Section 2036(c) should be repealed," he said. He noted that although the Chamber supports the overall concept of Rostenkowski's proposal, it has identified significant problems with it. Unless it is improved, Burton said, the Chamber cannot support it.

"The draft covers far more than abusive recapitalizations, is extremely complex, and provides inadequate protection against business downturn," Burton said. For example, he told the committee that buy-sell agreements should not be covered by the legislation. Buy-sell agreements, which are very common in family businesses, allow co-owners to buy out their heirs in the event of death or disability.

Rostenkowski's bill also establishes an arbitrary requirement that the junior interest in the business transferred to the heirs be valued at no less than 20 percent of the value of the equity of the business plus any debt owed by the business to family members. Twenty percent is too high a figure if recapitalizations are to remain a viable option for family business, Burton said.

The bill also would require that if the firm commits to pay a dividend on the interest retained by the parents and fails to pay that dividend for three years, a gift tax will be owed on the value of the unpaid dividend.

There are two exceptions to this provision. In the first one, the family may elect to have unpaid dividends accrue to the estate of the parent, where estate taxes will be paid on their compounded value at the death of the parent. The other exception would take place in case of insolvency or bankruptcy of the business.

The U.S. Chamber, says Burton, believes that at a minimum there must be an additional exception concerning situations in which the dividend is not paid because it cannot be paid. An example would be if the firm is making no money due to an economic downturn or a change in the fortunes of the business. The bill in its current form could force a gift tax on many businesses at a time when they can least afford it.

PHOTO: ©BRAD MARKEL

Don't tax *family firms "into extinction," says Sen. Steve Symms, advocate of restoring the estate freeze.*

In late September, Sen. Lloyd Bentsen, D-Texas, chairman of the Senate Finance Committee, introduced a bill that would retroactively repeal 2036(c) and replace it with a narrow gift-tax valuation provision.

"Within the business community, there is a consensus that Sen. Bentsen's bill is preferable to Rep. Rostenkowski's measure because it is much narrower and offers more flexibility," says John Carson, tax attorney in the U.S. Chamber's tax policy center.

Several other bills dealing with the estate freeze call for outright repeal of the provision. Enactment of a repeal bill would allow family firms to utilize the freeze again. Rep. Bill Archer, R-Texas, ranking minority member of the House Ways and Means Committee, has introduced one such bill, H.R. 60, which has 233 co-sponsors.

In the Senate, Steve Symms, R-Idaho, has introduced a more comprehensive measure. While his bill, S. 659, would repeal Section 2036(c), it also would increase the unified tax credit on family transfers to allow a $1 million business to be transferred without tax penalty. Also, Symms' legislation would lower the estate tax from 55 percent to 28 percent, and reduce the number of estate-tax brackets from 17 to two.

In introducing his measure, Sen. Symms said: "Family-owned businesses are not an American institution that Congress should contemplate taxing into extinction. Family businesses provide jobs, revenues to the Treasury, and products and services that are essential to the well-being of America."

Symms also said that "it is pure confiscation of property to tax anyone at 55 percent, particularly if they have worked, been thrifty, reinvested in their business, and paid taxes on the profits of that business throughout the years of building it." Realizing the ambitious nature of his proposal, he said, "I feel this estate-tax freeze will be received favorably. I am confident that at least this portion of this bill will be passed this year."

The Treasury Department has indicated that it does not favor tinkering with the current estate-tax rates. It has requested that congressional debate be limited to changes in Section 2036(c) along the lines of Rostenkowski's legislation.

With the Treasury Department and Rostenkowski focusing on modifying Section 2036(c), the Chamber's Burton says repeal is becoming less likely.

"The revenue estimates of repeal will be about $1 billion over five years," he says. At a time when Congress is searching for ways to trim the budget deficit, outright repeal may be viewed as too costly to the federal government. Even harder to pass, he says, will be proposals to reduce estate-tax rates.

Regardless of what happens in the current session of Congress, the Chamber will continue to push for repeal of the controversial provision. Says Carson: "Repeal of Section 2036(c) is critical to the future of the Chamber's family-business members."

Although several estate-planning methods still exist, many family firms have put their plans on hold as they eagerly await action from Congress on the freeze. Says the younger Steinmetz: "I don't know what we will do about estate planning. We have got to do something, but right now there aren't any good answers." NB

LESSONS OF LEADERSHIP

The Power Of A Good Idea

Even founder Tom Golisano was surprised by the rapid growth of Paychex, a payroll service for small businesses.

By Michael Barrier

When he left high school about 30 years ago, B. Thomas Golisano recalls, "I didn't have much direction to my life. My father helped me get a job counting money in a bank vault. Packages of bills would come in from department stores, and it was my job to take the wrapper off, count the bills, and put the wrapper back on. After doing that for two or three months, I realized I should be doing something else with my life."

It took Golisano about 10 years to find that "something else" and start his own business. Once he did, it took him the better part of the next decade to appreciate just how big that "something else" could be.

Yet another decade, and more, has gone by; Golisano will turn 49 on Nov. 14. This time, though, there is no sign that his life, and his business, will undergo transformations as radical as those they went through in the past. His "something else" has become Paychex, a Rochester, N.Y.-based payroll-processing company with more than 2,000 employees; its revenues in fiscal 1990 topped $120 million, with after-tax profit of more than $8.5 million.

As he contemplates what has grown out of his dissatisfaction with life in a bank vault, Golisano says, "I don't think a week goes by that I don't wonder if I'm still the right person to be running the show. I think those are healthy thoughts. They keep me moving."

Golisano is a Rochester native who has lived there all his life, despite the occasional lure of a warmer climate ("I was never a winter person," he says, and it helps to be a winter person if you live in Rochester). After leaving his bank-vault job, he took business courses at a two-year college. He spent a few years in other jobs before he wound up as a salesman for a payroll-processing company.

That company, typical for the field, sought big accounts, because, as Golisano says, "the larger the company, the more revenue dollars that would come in." But as Golisano made his sales calls, "I noticed that there seemed to be an awful lot of small businesses out there. So one day I literally went to the library and looked it up. I found out that 98 percent of all American businesses have fewer than 200 employees. Nobody was interested in this market."

The payroll processors showed their lack of interest by offering services that were "too complex for a small employer," he says, and imposing minimum charges that were too high.

In 1971, Golisano left his job to start Paychex, which addressed just such small-business concerns. Paychex let small employers bring payroll information up to date by making just a brief telephone call—they didn't have to fill out forms. In addition to processing payroll checks, Paychex prepared payroll tax returns—"which nobody was doing at the time," Golisano says—and offered its services at a price that small firms could afford.

It was a winning combination, although it took a while for that to become clear. "I wanted to sell 300 clients in Rochester and live happily ever after," Golisano says. "That was the premise and the purpose for the first three or four years," which was about how long it took him to reach that plateau.

As Paychex began to break into real success, a friend came to Golisano and suggested opening a branch in Syracuse. "And we did that," Golisano recalls, "as a sort of partnership." Then he franchised operations in Cleveland and Miami, and "I realized that maybe we had a chance to make this a national organization."

Within a few years, Golisano was involved in 11 joint ventures and six franchises, and Paychex was in 22 cities—but there was a big problem. "It was a very loosey-goosey type of thing," Golisano says. "I don't think we even had signed contracts for most of the franchise agreements." The 17 different companies under the Paychex umbrella were starting to pull apart in the services they offered and how they were run.

Late in 1978, Golisano "got the idea that maybe we could make this one company, if I could convince these guys not to be real entrepreneurs any more, but to be employees and major shareholders." He summoned all his partners and franchisees to a meeting in the Bahamas, and after a day of discussion, everyone agreed to sign up. But it was close: "We had one or two who needed to think about it for a couple of days, because when they came to the meeting, they were dead set against it."

As to how he won such remarkable unanimity, Goli-

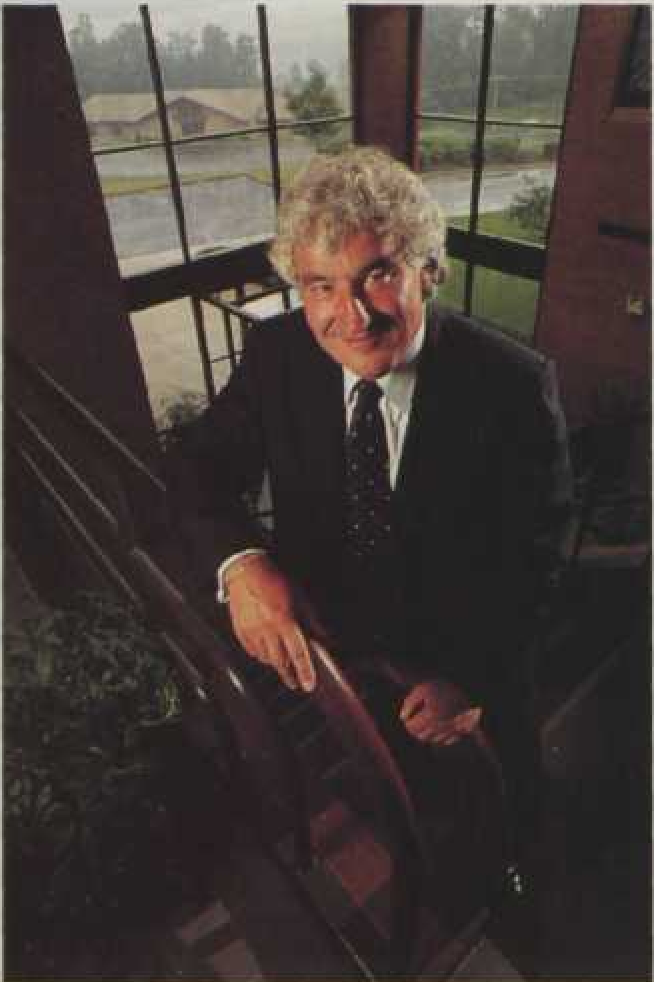

PHOTO: © REED HOFFMAN

Golisano wants *his company to become a helping hand.*

sano's answer is simple: "I worked out a formula, and we stuck to it. Usually you can't negotiate from an ultimatum, but in this case it was the only way to do it."

Paychex went public in 1983, primarily to raise cash for expansion, and it has indeed expanded: If it took Golisano several years to sell his services to 300 clients, Paychex now adds hundreds every week. The company has about 125,000 clients, and each year about 80 percent renew. When Paychex loses customers, Golisano says, usually it's not because they switch to competitors but because they go out of business.

PHOTO: ©REED HOFFMAN

Golisano looks over *plans for a 107,000-square-foot addition to Paychex's Rochester, N.Y., headquarters with Planning Manager Ed Brenkus.*

Stand with Golisano beside the desk of a Paychex "payroll specialist" as he explains what she does, and you can understand why Paychex struck a nerve.

With the client on the phone, the specialist enters the client's index number on her computer keyboard; immediately the first employee's file pops up on the screen. As Golisano says, "All the information we have about that employee is right there. She'll read the name, the client will give us the hours worked, and any change in name, rate, address, exemptions, or anything like that. Typically, the whole process takes about four minutes for a 20-person company." The cost to a small employer is, on average, $1.60 for each payroll check that Paychex writes.

As Golisano describes it, Paychex's pricing structure makes the smallest firms particularly attractive customers: "The first five checks are the most expensive to the client, and the last five checks are the least expensive. So the smaller the number of employees, the larger the revenue per check produced." Ten 10-person payrolls will thus produce twice as much revenue for Paychex as one 100-person payroll—and that extra revenue more than outweighs the added cost of handling 10 payrolls instead of one.

For all of Paychex's growth, the potential market remains huge. Paychex's strategy has been, as Golisano says, to "take the largest cities and work our way down," and the company now has branches in more than 70 cities. Those cities offer a total market of almost 4 million small businesses. Competition from other payroll processors is thus not one of Golisano's prime concerns; his strongest competition comes, he says, from companies that handle their own payrolls.

That brings up a question: With computer power ever more plentiful and cheap, is there any danger that Paychex will eventually find itself offering a service that almost any small business can match at even lower cost?

"We monitor very closely why we lose clients," Golisano says, "and over the last 10 years our loss percentage of clients to in-house computers has not changed. It's about 10 percent. But we can never know how many we'd sell if they weren't out there."

As if to hedge against being overtaken by technology, Golisano has expanded Paychex's scope in the past few years. Now, for example, in addition to preparing payroll tax returns, Paychex can also file returns and make tax payments for the client. This seemingly simple change adds about 35 percent to the $900 in revenues that Paychex derives from a typical account.

More significantly, Paychex has begun presenting itself to potential clients as an administrator of employee benefits and a provider of personnel services. It now prepares employee handbooks, offering what Golisano calls "a standard blueprint" into which employer-specific information can be inserted. Ultimately, Golisano says, "payroll will be just a small part of it."

The new services have not all been instant winners—the overhead associated with them reduced Paychex's earnings last year by almost $1 million—but Golisano thinks that over the long haul, employers' attitudes will work in his company's favor. Benefits and personnel policies are, he says, "the things that cause small employers a lot of consternation, because they're not in their skill set." The prospects thus are bright for the company that persuades employers that it can relieve them of that burden.

If Golisano's success has been unusual—and, in a sense, accidental, because he had nothing like it in mind when he started Paychex—he has nonetheless been a typical entrepreneur in the devoted attention he has paid to his business.

In his case, that devotion cost him not just long hours at work but also his first marriage. "For a period of time," he says of the divorce, "I obviously lost perspective, and that created a hardship." But, he adds, all-consuming work goes with the territory for people who are starting a business: "If they get by the delusions-of-grandeur stage and realize that they really want to make this thing go, they have to work."

Is there a solution for entrepreneurs who see their marriages threatened because they spend unavoidably long hours on the job? "I'm not sure 'unavoidable' is the right word," he replies. "I think there's a strong desire to do it." Such entrepreneurs, his answer suggests, may have to choose not between marriage and work, but between two kinds of marriage: marriage to a spouse and "marriage" to a business.

The fledgling entrepreneur thus risks losing not just money and time but family as well. So why do it? Golisano, in an article he wrote a few years ago for a trade journal, spoke not just for himself but for millions of others when he said: "Because the rewards, if you are successful, are unmatched by almost anything in life." NB

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ENTREPRENEURSHIP

Small Companies Bridge The Gulf

By Joan C. Szabo

Businesswoman June Collier says she never expected the big increase in the Defense Department's order for the chemical-warfare suits she manufactures. Of course, like most Americans, she never expected the crisis in the Persian Gulf.

"When all heck broke loose in the Middle East, my original Defense Department order for 80,000 units grew by 500,000," she says. Now the company she recently acquired, National Apparel, Inc., of Montgomery, Ala., has received an additional contract—for 350,000 more suits.

Many small and midsized companies are stepping up production to meet the needs of the U.S. military in the Persian Gulf.

Collier manufactures trousers and coats known as "chemsuits" for the U.S. military. The camouflaged fabric shells contain an inner liner of charcoal-impregnated open-cell foam; it neutralizes mustard-gas and nerve-gas agents, which are known to be in Iraq's arsenal.

Collier, who also is chairman and president of National Industries, Inc., a Montgomery, Ala., firm that is a leading supplier of electrical-wiring assemblies, hopes no chemical weapons will be used in the latest conflict—or in any other. But if chemsuits are needed by the U.S. military, her firm is prepared to supply them. According to federal procurement records, National Apparel is one of only four U.S. companies approved as sources for chemsuits, and it is the only one with mass-production capabilities.

National Apparel operates five factories in Alabama and Mississippi, and it will employ approximately 1,000 workers when it is in full production. The company is capable of manufacturing 20,000 chemsuits per week, and it is now expanding capacity to fill existing and new orders from Washington.

National Apparel is one of many small and midsized companies that are stepping up production to meet the needs of the U.S. military in the Gulf. After conflict erupted in the region, the Pentagon substantially increased its procurement of food, clothing, and medical supplies for U.S. troops.

The Pentagon agency that buys these products is the Defense Personnel Support Center in Philadelphia. Through Sept. 17, the agency had spent $401.5 million on Operation Desert Shield—the name given to the U.S. military effort in the Persian Gulf region. According to the Support Center, requisitions for food, clothing, and medical supplies generally average about $3.5 billion a year.

Among the companies whose business has been stepped up by the U.S. presence in the Persian Gulf area is Sterling Foods Inc., of San Antonio, Texas. The company recently received an order for 500,000 cans of cake to be used in the Pentagon's tray-pack pro-

PHOTO: ©MIKE CLEMMER

Chemsuit manufacturer *June Collier, right, with employee Geneva Long.*

Military leaders turned to small businesses when they needed fast delivery of supplies for troops heading for the Middle East.

gram. The tray packs, which are heated with hot water, offer soldiers a complete hot meal. "That order is the first contract we have been awarded for tray-pack cans in over a year," says the company's president, Roy D. Terracina.

The company, which has about 350 employees, makes breads and desserts for the tray-pack program and for the rations program called Meals, Ready-To-Eat—or MRE. Terracina says that the company depends on the U.S. government for most of its business.

The firm also is expediting delivery of an order it received last March to make 18 million small loaves of bread to be served with the soldiers' rations. Delivery had been set for the end of this year but has been moved forward to Thanksgiving.

Although Sterling recently began trying to sell more to commercial customers in anticipation of possible defense-spending cuts, it is mobilizing as quickly as possible to provide the military with the food items it needs. The firm is running two full shifts six days a week to fill Uncle Sam's order, says Terracina.

Companies that have been asked to help supply various goods are eager to do their part. "We enjoy it—the employees feel they are contributing to the effort," says Frank Palm, sales manager of Moyco Industries, Inc., a dental-supply company in Philadelphia. Moyco is supplying the Defense Department with 1 million cans of Itch-A-Way foot powder at a cost of $350,000. Palm says: "We have won this contract for the last four years. Now the Defense Department has asked us to expedite the order."

The company, which employs about 60 people, was expected to fill the order over the course of a year, but once Desert Shield was launched, the Pentagon wanted the remainder of the order all at once. "We had to put on longer shifts to fill it," says Palm. "We are working 10-to-12-hour shifts as well as on weekends so we can make the delivery in time."

The Defense Department also asked Wisconsin Pharmacal, of Jackson, Wis., to supply the troops with a large quantity of its Potable Aqua water-purification tablets within a 15-day period. One or two tablets can purify a quart of water. Thomas Bonesho, executive vice president, says that realistically the firm, which has 55 employees, simply could not fill the order in such a short time. To meet its needs, the Defense Department asked another company to help fill the order. Wisconsin Pharmacal is working overtime and weekends to supply the troops with 260,000 bottles of water-purification tablets. The order is valued at $147,000.

PHOTO: ©JOHN [illegible]

Thomas Bonesho *with water-purifying tablets for troops in the desert.*

The increase in business activity resulting from the mobilization of U.S. troops in the Saudi Arabian desert has been felt only by certain types of small and midsized firms, however. Experts say that the companies being asked to increase production are mainly those that provide spare parts, clothing, food, and medical supplies.

"In the main, the smaller companies in the professional-services area are not being affected by the mobilization," says Donald Grigg, president of the Association of Small Research, Engineering and Technical Services Companies, in Vienna, Va. About 65 to 70 percent of the association's members provide services to the Defense Department. Grigg also is president of his own firm, DAE Corp., which performs support and management services, mainly for the U.S. government.

Grigg is concerned that Operation Desert Shield may actually mean a reduction in future spending by the military for certain goods and services. "A lot of smaller companies are holding their breath to see whether money that would have been going their way for research and development is no longer there because it was spent elsewhere, or it is not there because Saudi Arabia funded the spending in the Gulf," he says.

Companies being asked to increase production are mainly those that provide spare parts, clothing, food, and medical supplies.

Grigg also points out that the Pentagon is falling short of the congressionally mandated goals of spending 5 percent of its prime-contract dollars and 5 percent of subcontracting funds with minority-owned companies.

Another federal-procurement expert who says smaller firms are not getting a lot of new business from the U.S. effort in the Persian Gulf is Robert W. Michel, vice president of business development for the Government Procurement Assistance Center Inc. The Woodbridge, Va., firm helps small businesses cut through the maze of red tape involved in obtaining federal contracts.

"People who are in the business of providing things that are needed in the Gulf are going to find the government asking for more of these things," Michel says. "But the crisis is not going to result in any drastically new government buying practices."

No one can forecast with certainty how long U.S. troops will stay in that region of the world. But for whatever time the U.S. forces are deployed in the Persian Gulf and require the products supplied by small companies, business owners say, those products will be produced and shipped to the troops as quickly as possible. NB

ECONOMIC DEVELOPMENT

Allies For Growth

States and communities that have vied with one another in economic development are now discovering that regional togetherness pays off.

By Harry Bacas

In the Thimbleberry Shop, one of four stores she owns in Copper Harbor, Mich., Barb Foley is pouring fudge and telling about the cooperative effort that has stimulated tourism on this peninsula on Lake Superior.

"When I was a kid growing up, some business people, including my dad, had something they called the Admiral's Club. If you went all the way around [Lake Superior] and got your ticket stamped, you were a member of the club.

Cutthroat competition has not vanished, but states have made significant strides in cooperation.

"Eight or nine years ago, some business people from other towns and I asked, 'Why not revive that idea?' "

That rhetorical question resulted in the Circle Tour of Lake Superior, whose purpose, says Foley, is "giving people a reason to come here." Today, visitors are taking not only the Lake Superior Circle Tour but also tours around Lake Michigan and Lake Huron. Soon they even will be able to tour the perimeters of all the Great Lakes and the upper St. Lawrence River.

Variations of Barb Foley's idea—that separate communities can be allies in economic development—are working in different ways across the country. It is behind joint ventures involving huge regions like the eight Great Lakes states—where 20 percent of Americans produce 37 percent of the gross national product—and it is sparking cooperation in much smaller regions too.

The Mid-South Trade Council, for example, is a loose confederation of six states. The Mid-South Common Market, centered in Tennessee and reaching to neighboring states, represents the interests of a region of 105 counties with Memphis at the core. The Shoals Industrial Development Authority, despite its grand name, takes in just two counties and four towns along the Tennessee River in northern Alabama, with a combined population of 135,000.

"We are seeing more and more of these multistate and regional cooperative efforts," says Miles Friedman, executive director of the National Association of State Development Associations. "That's true even though such cooperation runs counter to the popular image of economic development as cutthroat competition."

Cutthroat competition has not vanished, of course. One community's ardor in attracting new industry often looks like larceny or abduction to the community whose companies are being lured away.

But Terry Thomas, Ohio's assistant director of economic development, thinks the states have made significant strides in cooperation. He says: "It's one thing to do resolutions or memorialize Congress to develop toxic specifications for the Great Lakes or to ask the federal government for cleanup money. It shouldn't be that difficult to get together. But when you create a joint trade office financed entirely by the states or when you form a Great Lakes protection fund to which the states agree to kick in $100 million, that's important cooperation."

The town of Copper Harbor, on the northernmost reach of Michigan's Upper Peninsula, was named by early copper miners who landed there to start their explorations. Copper mining is long gone now, and the town's main industry is tourism.

Barb Foley has four shops in two buildings in Copper Harbor, and she has 20 employees. Occupying a former bar are her Last Frontier Gift Shop, which sells mostly copper items, the Thimbleberry Shop, which sells ice cream and fudge, and the Christmas Shop. Her Country Store is nearby in a former mining-company store.

PHOTO: ©STEVE STEARNS

Shop owner Barb Foley, *right, mastermind of the Lake Superior Circle Tour, talks with tour coordinator Joanne Yeo and her son, Nick.*

Foley tells of the trips that she and four other business people made to the Legislature in Lansing in the early 1980s to obtain state sanction for a tour around Lake Superior. She also recalls her efforts to obtain the funds to erect signs, publish a map and a guidebook, and coordinate the project with Wisconsin, Minnesota, and Ontario.

Eventually, visitors began showing up at Copper Harbor and other lakeshore towns with the Circle Tour booklet in their hands. Tour groups and individuals started telephoning for reservations. Today, Foley says, a sub-

Harry Bacas is a frequent contributor to Nation's Business.

stantial number of her customers tell her they came because of the tour.

Down on Lake Michigan near Traverse City, David Stiffler sees 20,000 visitors a season at his Music House, a performing museum of automated musical instruments. Many of his visitors are groups in motor coaches doing the Lake Michigan tour. Stiffler calls it "a real systematic development and a great asset to individual businesses."

More overseas visitors—especially from Britain—are expected to travel in the Great Lakes area next year.

Farther down the coast, at Silver Lake, where Jack and Alice Warfield run a dune-buggy rental business, customers also show up carrying the Circle Tour book. Although the foreign tourists she now sees appear to be guests of U.S. families, Alice Warfield says, she expects to see more overseas visitors—especially from Britain—traveling on their own in the Great Lakes area by next year. That's because eight states and Ontario, members of the Council of Great Lakes Governors, have signed a compact on tourism and launched a $750,000 international marketing campaign this year to promote "North America's Fresh Coast" and the Great Lakes Tour.

The campaign so far has focused on the United Kingdom. Next year, marketing will broaden to Germany and the rest of Europe. John Savich, director of the Michigan Travel Bureau and head of the campaign's task force, led the first mission to London, in March, with colleagues from Ontario, Wisconsin, and Illinois and with an independent travel consultant. They promoted a variety of regional tour packages to travel agents and airlines.

"We were surprised," said Savich, "to find interest in many other things than just the lakes—the Mississippi River, the Mark Twain country, Chicago and Lincoln country, the history of the English advance through Canada, the forts. We also found that one package likely to attract young people would be a combination of snowmobiling and downhill and cross-country skiing in a single trip."

The Great Lakes states are cooperating on more than tourism. "Our mandate is to look at joint or cooperative trade opportunities we can offer to small and medium-sized companies in our eight U.S. states," says Allan Anderson, a Canadian who runs the Great Lakes council's trade office in Toronto. "We participate in trade shows, representing companies on a catalog basis. We provide companies with low-cost ways to test the Canadian market for their products. We help them with documentation required under the Canada-U.S. Free Trade Agreement to qualify for lower tariffs."

Robert Kovach, director of Indiana's Department of Commerce, thinks the Canadian office will be a big help to his state because although "Canada is Indiana's No. 1 trading partner, before this we had no presence in Canada."

Interstate cooperation on a more personal level can be seen by turning from the Great Lakes to the Mid-South Trade Council. "Our group started in 1983 when five state export directors found themselves together on a plane to a Department of Commerce trade fair," explains Leigh Wieland, Tennessee's export director. "Very informally they decided to establish the Mid-South Trade Council. No rules, no charter, they just agreed to meet quarterly and to rotate assignments where one state leads a trip or coordinates an initiative for the others. The members were Alabama, Arkansas, Mississippi, Tennessee, Louisiana, and the World Trade Center at New Orleans. Kentucky joined later.

"States are invoiced for actual costs. When we host foreign buying missions, the host state pays the bulk of the costs. For example, last year Tennessee hosted the Korean Environmental Preservation Association in Nashville, and Arkansas represented the other states on an environmental-technology mission to two cities in Taiwan. When my office visits a client, if Tennessee doesn't have the product they need, we tell them we also represent five other states that can research their needs."

In September, for example, trade specialist Paul Bonovich led a mission for Tennessee to two big European sports-equipment shows, in Munich and in Paris. He wore two hats, representing not only manufacturers from his own state but also some from other Mid-South Trade Council states.

The show in Munich, the largest of its kind in the world, annually attracts 35,000 professionals from 80 countries. From the list, Bonovich sent invitations to more than 200 European distributors, asking them to visit his booths for T-shirts, brochures, and a look at products and catalogs from 15 companies.

From Tennessee, for example, he had Adams U.S.A. of Cookeville, one of the largest manufacturers of football, baseball, and soccer pads, and Worth Sports Co. of Tullahoma, one of the largest manufacturers of baseball bats and gloves. From Kentucky, he had Ebonite International, of Hopkinsville, a world leader in bowling balls, and from Arkansas, Ben Pearson Inc., of Pine Bluff, the third-largest U.S. manufacturer of archery equipment.

"Getting key companies like these made the mission respectable," says Bonovich. "And this wasn't a bureaucratic exercise. We were able to bring in private-sector aggressiveness and private-sector energy."

Each company that took part paid $2,000 for the trip and $600 for shipment of catalogs to both shows. "If a company were doing this on its own, it would cost them $24,000, for training, interpreters, furniture, transportation, brochure printing," says Bonovich.

PHOTO: ©MIKE CLEMMER

Terry Cook, *right, who runs the Shoals Tubular Products plant, talks with employee Malcolm Ritchie.*

"It was a good deal," agrees Annette Hugen, international sales director of the Ben Pearson company.

A smaller still but more intense kind of cooperative economic development can be seen at work in the Shoals area of northern Alabama. There, Lauderdale and Colbert counties, facing each other across the Tennessee River, and their four small cities have joined forces to attract new investment.

Courting outside investment usually

generates fierce competition. But under the common stress of a string of plant closings and business losses, the separate Shoals jurisdictions agreed four years ago to stop bashing each other in public and to set up the Shoals Industrial Development Authority, a partnership involving the public and the private sectors.

In three years, Shoals unemployment had doubled, to 20.6 percent. In 1985, when the authority (known as SIDA) was proposed, unemployment was 15 percent, compared with 10 percent in Alabama and 7.5 percent nationwide.

Eddie Frost, mayor of Florence, Ala., the largest of the Shoals cities, with a population of 37,000, says: "We knew we needed to diversify, so our economy wouldn't be so dependent on a few major employers. But we were still spending our energies fighting each other; state development officials were afraid to send a company in here because we were all so split up. Now we bring a company in and show them all the sites in the entire area. In the past three years, Florence has gained 3,000 new jobs thanks to SIDA."

Across the river, Ray Cahoon, mayor of Tuscumbia, population 10,000, says it wasn't easy to bring the communities together. "People were scared that one area would get more than another area. Everybody was focused on their share of the pie. But fortunately those people who couldn't see the forest for the trees were replaced by people who are more progressive and aggressive."

After the governing bodies of the two counties and four cities (the two other cities are Sheffield and Muscle Shoals) agreed to help fund a unified economic-development effort, the state legislature in April 1986 enacted a statute creating the authority. The state development office sent SIDA its first foreign visitors the same month, a delegation of South Korean industrialists.

One of the most recent start-ups is Shoals Tubular Products, an offspring of a Jacksonville, Texas, company that cuts, bends, and brazes tubing into subassemblies for air-conditioner manufacturers.

Terry Cook, who runs the new plant, says that SIDA coordinated "the whole package to bring us here. We needed to expand, to relieve pressure on the Jacksonville plant, to put them back on straight time instead of overtime. We had several customers in this area, like Carrier and Amana, and we were servicing them from Jacksonville. It became obvious that we could do a better job of serving them if we were here. This location is in the center of a triangle of our customers."

Although the Shoals authority recently lost out to Iuka, Miss., for a plant that will make rockets to launch the space shuttle, Mayor Frost sees a plus side in the outcome. Iuka, he explains, is "just 35 miles from here. The plant is being constructed now and will add 1,200 to 1,500 new high-tech jobs. We know that a lot of those people are going to live right here."

Two Alabama counties and their four small cities have joined forces to attract new investment.

Overall, Frost is confident about the Shoals' economic future. "You hear that adversity brings people together," he says. "Well, back when we hit those 18 to 20 percent unemployment figures, we realized we had to pull together to save ourselves. Now we see our strength is in our unity." NB

Small-Business Computing

What's new and useful about an increasingly essential business tool.

OPERATING SYSTEMS

Should You Do Windows? It Depends

Cutting through the public-relations and trade-press hype about Microsoft Windows can be a bit difficult. To listen to some of the talk, you might think that the introduction of Windows software is no less important an event than the launching of the Mariner space probe of Venus.

Understanding what Windows is—and, equally meaningful, what it is not—can help you evaluate its significance for your business.

Windows 3.0 is Microsoft's latest attempt to give PCs based on that company's user-unfriendly disk operating system (DOS) a "graphical user interface" similar in feel and appearance to Apple's Macintosh, which puts little pictures (icons) on the screen to represent programs and files.

Proponents of the graphical user interface say that, compared with the character-based mode under DOS, it cuts training time, is easier to learn and use, and makes users a lot more productive and efficient.

All programs written for a particular graphical user interface share the same approach, and they have a screen display that mimics your final output as closely as possible. By contrast, most software programs that run in a character-based mode under DOS have distinct personalities and interfaces, so that time spent learning one doesn't necessarily reduce time required to learn another.

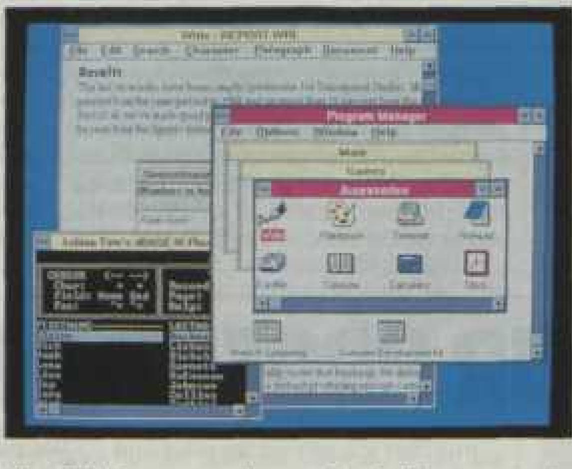
With Windows 3.0, Microsoft has succeeded in providing IBM and compatible PCs with a graphical user interface that rivals that of the Mac in virtually every aspect.

Beyond all the PR hyperbole and editorial enthusiasm, Windows 3.0 is a landmark achievement. It is a powerful, striking, and potentially highly useful product for business users, with numerous improvements over earlier versions of Windows. The improvements have been made in areas such as:

Memory Access. DOS programs are constrained by the ability of that operating system to address only 640K of random access memory (RAM).

That means that software developers have had to keep their program code relatively sparse, a problem as programs grow in features and complexity. Windows 3.0 breaks this barrier, allowing any Windows application access to all installed memory, up to 16MB total, 16 times the standard now being installed.

If you have a computer based on a 386 chip with 2MB or more of RAM, Windows can also use hard disk space as virtual memory, providing up to a total of 48MB of memory—all of which is handled automatically by the program.



Look And Feel. Windows 3.0 has an elegant, beautiful design, with excellent control over screen colors and icons. You can also group programs in folders that make sense to you—all your word-processing files, for example, or all programs and files needed for creating marketing proposals.

Multitasking. While earlier versions offered multitasking, version 3.0 makes the process much easier, especially with machines that aren't loaded with memory. Particularly in its 386 enhanced mode, you can juggle more applications than you probably need to keep open at any one time.

Setup And Accessories. Windows 3.0 is now much easier to install and modify than before. And the program includes a beefier set of desk accessories, including a vastly improved terminal (communications) program, a much better drawing program, a new macro recorder, and several other major and minor enhancements.

Though all this sounds positive, as indeed it is, it doesn't necessarily mean that you should run out and buy Windows.

To take full advantage of Windows, you need at least a 386SX, 386, or 486-based PC with 2MB (and preferably 4MB) of memory, along with a VGA color monitor and graphics card. Running Windows on one of these configurations is a pleasure. Running it on less hefty hardware might make you wonder what all the fuss is about.

Also, you have to consider the cost of upgrading your software. Although you can run most DOS applications under Windows, there is little incentive to do so. Most DOS software (such as Word Perfect and Lotus 1-2-3) will perform better without Windows.

The main reason to buy Windows is to enable you to use Windows-compatible application software, which means buying a new set of software. Most Windows software retails for $300 to $700, so this is not a trivial matter.

What about the increase in productivity and reduced training time? It depends.

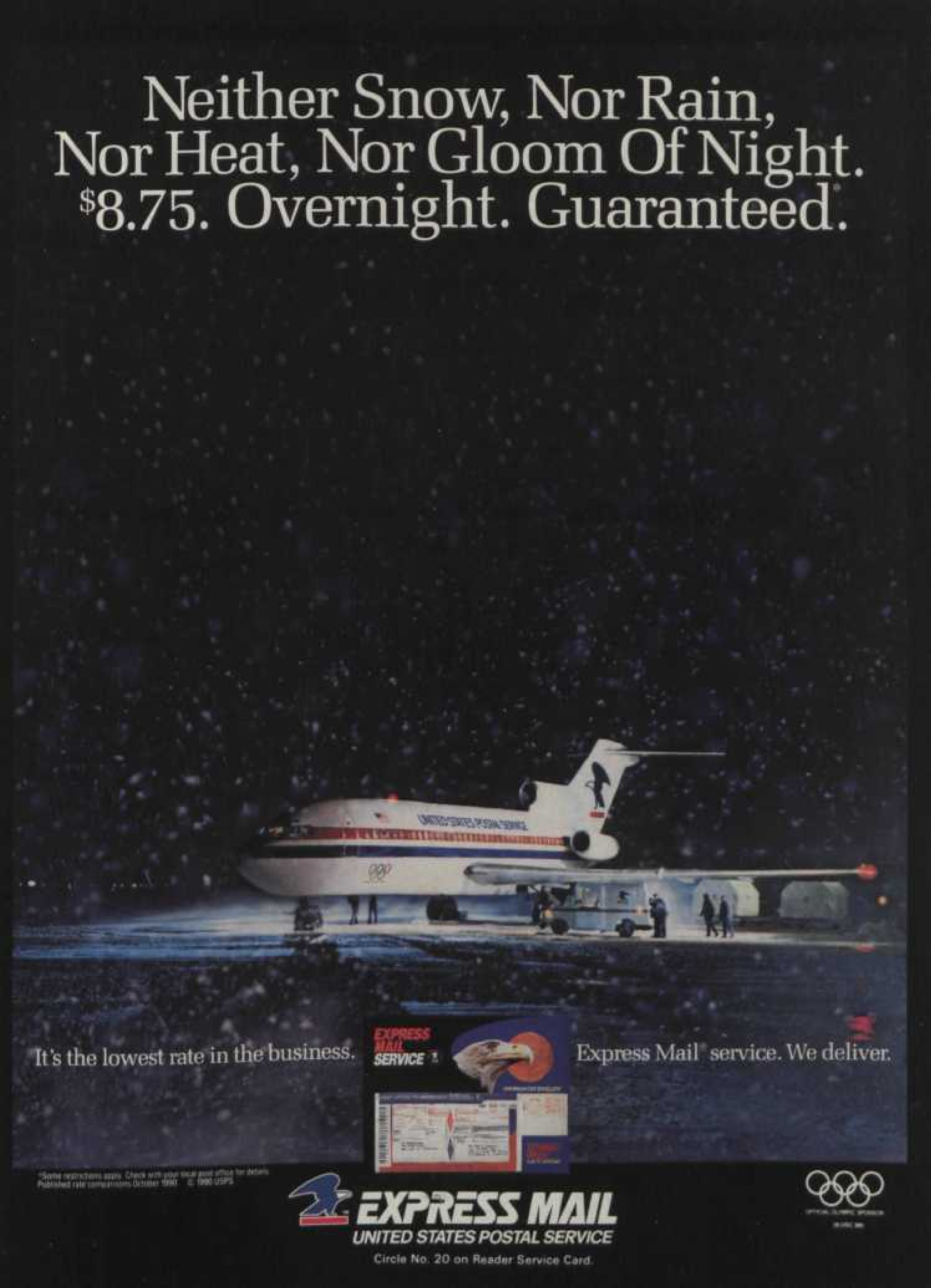
We have found that it takes about as long to learn any software, whether it runs under DOS or Windows. After that, additional Windows packages are easier to learn than additional DOS software. But if your employees are already doing well with your current crop of programs, there is no need to junk them.

For example, while Word for Windows is a fine word-processing program, you won't be gaining anything by having employees who are proficient with Word Perfect switch over to Word for Windows.

Our suggestion in that case is to consider Windows software for new application areas you might be moving into, such as desktop publishing, graphics, computer-assisted design (CAD), and so on. Then you can mix your current DOS favorites with newer Windows applications.

Or, if you are ready to upgrade your hardware and are looking around for new software as well, by all means, consider Windows.

—Jon Pepper



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INFORMATION MANAGEMENT

A Useful Personal Information Manager

Lots of useful programs are for occasional needs. But sometimes a small, unassuming one comes along that you just use—a lot. **Info Select** from Micro Logic is one of those programs.

Info Select acts as a handy dumping ground for all kinds of random notes that you usually take down on paper scraps—and promptly lose. Telephone numbers, appointments, reminders, to-do lists, random thoughts, notes of all kinds that usually end up under a pile of papers, unavailable just when you need them most.

Info Select loads before any of your working programs, and it can be called up with a "hot key." You type in notes quickly and drop out of the program again. When you need the note, you hot-key into the program again and do a search on any set of characters in the note, and the note will pop up instantly.

I use the program as a tickler file, because the first time I call it up, it tells me what's on for the day. Of course, this can be annoying to the procrastinator, because it keeps on the list anything I didn't do the day before.

Info Select does a lot more: It can dial from your calling list if you have a modem, it can do small databases and limited project management, and it can handle letters, forms, and mail merge. You probably won't use a lot of that, but it's nice to know it's there.

Of great use is the way you can take notes as you are working on another file—either text or spreadsheet—even lifting a full page of that document into Info Select. Then you can rearrange the notes and drop them back into the text, or you can put them in a separate file, or print them from the program. It can keep up to 64,000 of these notes, depending on the amount of RAM you have available.

This small program lists at $99.95 and has made a place for itself among my working programs. It's good because it does a lot, unobtrusively, and yet doesn't do too much. Micro Logic is in Hackensack, N.J.; (800) 342-5930.

—Ripley Hotch

COMMUNICATIONS

A Fax Board That Does Lots, Costs Little

Some computer hardware products stand out for their technological excellence, others for their low price. Only a few are noteworthy for both quality and value, and the **Frecom Fax96** is one of them.

This board allows any IBM or compatible PC, XT, AT, or 386 computer to double as a fax machine provided it has 384K or more RAM and a hard disk—preferably a large one because faxes are stored as graphic files, which are notorious memory hogs.

The $195 Frecom and other fax boards, most of which cost at least twice as much, send and receive faxes in the background while you use your computer for other tasks. This makes fax boards ideal for sending documents to multiple recipients, especially those whose fax numbers seem to be perpetually busy.

Faxes received via a computer add-in board can be routed to your computer's printer, making these boards ideal for those who detest reading from the thermal paper spit out by most stand-alone fax machines.

Once I figured out that the Fax96 and its accompanying software could not live in peace with the *Nation's Business* local area network, I introduced it to a more hospitable stand-alone machine; installation took less than 30 minutes. Sending, receiving, and printing faxes with the Fax96 software is so intuitive that I have yet to consult the 90-page operator's manual. Best of all, the board sent a lovely looking fax complete with cover sheet on the first try. Incoming faxes also have looked great from the start.

The Fax96 is from Fremont Communications Co., Fremont, Calif.; (415) 438-5000.

—Albert G. Holzinger

UTILITIES

Everything But The Kitchen Sink

PC Tools Deluxe, the Swiss army knife of utility programs, is up to version 6.0. As this program has evolved, it has added features. It is now a DOS shell (managing files and programs), a backup program, a data-recovery program, and desktop manager. Users with a great deal of PC experience swear by the program, and it has for months been one of the top 10 sellers.

Because it is so feature-rich, PC Tools Deluxe can overwhelm the novice user. The program does allow you to choose the level of complexity you want, so less experienced users aren't exposed to all the variations at once. Sometimes, in its effort to be all things to all people, it reminds us of Harpo Marx: Whatever you want is somewhere in that huge coat. For example, there are three different kinds of pop-up calculators. It will manage your fax card and modem, speed up information transfer with a disk cache, analyze the hard disk for problems, and so on.

The great advantage of PC Tools Deluxe is that it puts so many essentials in one handy place. With a single interface, there's less to learn when you want to turn to a necessary function. Every PC user should have a utility for protecting data from hard-disk problems. And everyone should have a relatively simple and efficient way of backing up files. If they save you from the horror of a disk failure, they will have saved their cost. Adding in the file managers is icing on the cake. PC Tools Deluxe, V.6, is from Central Point Software (503/690-8083) and lists for $149—a real bargain for all you get. NB

The Adaptable Enterprise

From environmental awareness to low-cost lodging, consumers' changing preferences are franchising's opportunities.

By Meg Whittemore

Franchisors usually begin as small businesses, and franchisees remain small-business people. Franchising therefore retains the advantage of the small business—the ability to react quickly to emerging consumer trends. Franchise entrepreneurs often are the first to meet consumers' changing preferences with innovative products and services.

One of the strongest-running currents of the 1990s so far has been the widening concern for the environment—a concern that is voiced by businesses as well as consumers. The growth of companies serving environmental needs is one of several developments examined in this survey of major trends in franchising. Among other specialties that have proven successful as franchises are those that offer door-to-door or business-to-business services, those that help newcomers get established in communities, and those that offer affordable lodging—for business travelers as well as vacationers—in a tight economy.

Serving The Environment

The growing interest in environmental matters is presenting opportunities for franchisors such as Python Recycling, Inc., based in St. Cloud, Minn. The company specializes in offering redemption centers for reusable paper, cans, and bottles. Python's five franchises operate nine collection or redemption centers throughout Minnesota. The company also runs a processing plant and a retail store for recycled products only. "We are taking recycling full circle," says Daniel Huschke, the firm's general manager. He and Stuart Hamilton, Python's president and owner, founded the company four years ago.

In Minnesota, where recycling is mandatory, many residents enjoy curbside pickup of their recyclable materials by local haulers, and Python takes over from there. "We don't want to run curbside pickup," says Hamilton. "We want the haulers to collect it and bring it to us."

Convenience for consumers is a must, especially for those who don't have curbside pickup. "We try to find a convenient location for drivers," says Hamilton, "because if most people have to spend money on gas to get to a recycling center, then the whole [conservation] point has been lost."

That reasoning led Hamilton to try to locate each of Python's franchises in the same area as a McDonald's to capitalize on the high traffic. The strategy appears to be working. Python's 1989 systemwide sales exceeded $3 million.

Hamilton and Huschke have years of experience in recycling. Starting in the mid-1970s, Huschke ran a recycling business that handled mostly paper products. In 1976, Hamilton started Python Beverage and Recycling, which primarily sold soft drinks but also handled a small amount of glass and aluminum-can recycling. "I had tens of thousands of soda-pop bottles that I couldn't get anyone to take back for deposits," says Hamilton. "But if I broke the glass, I could sell it back for recycling."

The businesses grew independently of each other until 1986, when the two decided to team up and fill a void in the recycling arena. "All the emphasis was being placed on collection," says Huschke. "We felt that what was desperately needed was the processing and marketing of all this stuff."

So the two entrepreneurs set up in

PHOTO: ©STEVE WOIT

Recyclers *Daniel Huschke and Stuart Hamilton: convenient conservation.*

St. Cloud a $1 million processing plant that sorts, cleans, crushes, shreds, bales, and ships the tons of recyclable materials collected by the franchised redemption centers. Last year Python handled more than 17,000 tons of recyclable materials.

The decision to franchise evolved from the idea that the smaller recyclers in Minnesota could be tied together. "We felt a network was in order," says Huschke, because collection is a full-time job and "the recyclers couldn't adequately market the materials they collected."

In 1989, Python began franchising. The parent company operates the processing center and one franchise, and it sells the processed materials.

The nine centers take a wide range of materials, including aluminum cans, glass, nonferrous metals, plastic bottles and jugs, newspapers, cloth, and office paper. The combined collection centers handle up to 9 million aluminum cans a month, Hamilton says.

Start-up costs for a franchise range from $12,000 to more than $50,000, depending on the size of the center. Smaller service areas lower the cost.

Franchisees receive training, accounting services, centralized marketing, and help in selling the collected materials. They can sell their materials through Python's network of buyers, or they can sell to independent buyers. "We don't want to restrict them if they can find a higher price," says Huschke.

The biggest mistake we see people making is that they try to run a business with their hearts instead of their heads.

—Stuart Hamilton, Python Recycling

If the franchisee uses Python's network of buyers, there is no royalty fee. If it sells to another buyer, the franchisee pays a royalty of $2 per ton on volume items, such as glass, plastic bottles, cloth, and newspaper.

"Every collection center is planned with McDonald's and 7-Eleven in mind," says Hamilton, "which means we run a clean operation, try to make the franchise worth something, and make it convenient."

The company plans to grow in Minnesota and elsewhere. Hamilton says the firm has received inquiries from 15 other states. An out-of-state franchisee would become a subfranchisor. "We are interested in dealing with someone who has enough capital to start our entire program, including the processing center," he says. That means an investment of about $1 million.

In-state franchisees, to be profitable, must plan to be owner-operators, says Hamilton. He says the owner must be someone who prefers "doing the work himself, paying himself, and being his own boss." The concept works best when the Python franchisee is also in another service-oriented business, such as refuse hauling.

A strong commitment to recycling as an environmental policy is not a requirement for franchisees, but a willingness to work hard is mandatory, Hamilton says. He shies away from overly idealistic environmentalists. "The biggest mistake we see people making is that they try to run a business with their hearts instead of their

Continued on Page 52

Franchising's First Lesson Is Homework—And Lots Of It

The concept of owning your own business and being your own boss has fueled the extraordinary growth of franchising in this country and abroad. During the past several years, however, many franchisees have sued their franchisors, accusing them of misrepresenting the nature and understating the risks of franchise ownership.

Because of complaints by some franchisee owners, Rep. John LaFalce, D-N.Y., chairman of the House Committee on Small Business, says it's time to shed light on franchising—both its positive developments and any practices that need correcting. His committee staff recently prepared a report on franchising that calls for an examination of issues in franchising and for legislation to protect franchisees' rights. (See "Congress Looks At Franchising," on Page 51.)

Although some franchisors do underplay failures and overstate prospects, industry consultants say, there are ways for potential franchisees to guard against failed expectations.

PHOTO: ©DAVID PERDEW—STOCK SOUTH

Les Rager: *Educate yourself.*

"Potential franchisees simply have to spend more time looking at what they are getting into," says Les Rager, president of Rager & Associates, a franchise consulting business in Roswell, Ga. "They get all hyped up with the thought of owning their own business and don't look beyond that point." Rager, who counsels franchisors, says that "many potential franchisees try to take the easy way out and don't look beyond what the franchisor tells them"—a complacency that can breed problems later on.

"The basic components of the relationship have to be redesigned," says Robert Kushell, of Kushell Associates, Inc., a franchise consulting firm headquartered in Glen Cove, N.Y. Kushell, involved in franchising since 1961—as a franchisor, then as a franchisee, and most recently as a consultant to both groups—says the time has come for a serious examination of the way franchises are bought, sold, and run. "We need better education of both the franchisors and the franchisees who are getting into franchising," he says, "and that means improving communication right from the beginning."

The responsibility for being thoroughly informed about a franchise before signing the contract rests primarily with the potential franchisee, says Rager: "Gather your own information

and do your own homework."

Trade shows, a popular way to present many franchises under one roof, may be useful for gathering information, but potential franchisees should consider them as a form of window shopping, says Rager. Only through long hours of research can a potential franchisee obtain the information that is really needed on the company—its financial standing, its franchisee failure rate, its litigation history, its performance over a period of years, its growth plans, its support systems.

A would-be franchisee should contact the company directly for information. "If the company is credible, it will do everything it can to help you get information," says Rager, "and it won't make any promises."

Don't rush into any decision, advises Andrew Sherman, a Washington, D.C., lawyer who specializes in small businesses and franchises. Take your time with the franchisor's financial statement, making sure that the company stands on solid financial footing. "Take a hard look at the franchisor's financing," Sherman says. "If it is weak, then the franchisor is going to cut corners where he or she can, which will eventually lead to litigation."

Rager, Kushell, and Sherman suggest you take these steps before buying a franchise:

If the company is credible, it will do everything it can to help you get information, and it won't make any promises.

—Les Rager, Rager & Associates

- Read all you can about franchising in general and the franchised firm's particular industry.
- Put your own financial house in order. Reduce your debt, determine your net worth, and prepare to write a business plan to present to a bank.
- Ask the franchisor for information, and get a list of all its current franchisees and those no longer with them. Interview as many as you can (especially those who left) to learn what they like and dislike about the franchise, the franchisor, and the industry.
- Look at any litigation proceedings involving the franchisor. Examine the charges. A case could be that of a franchisor vigorously defending its trademark, for example, or a franchisee complaining of wrongful treatment.
- Assemble your own management team—an attorney, an accountant, a business adviser, a banker, and family members. Choose with an eye toward the team's knowledge of franchising.
- Meet with the franchisor, and be armed with written questions. Notice if you are interviewed in return. Because the success of the franchise depends upon the success of the franchisees, a good franchisor will want to know as much about you as you will want to know about the franchisor.
- If you sense that the franchisor is not completely open in answering your questions about all aspects of the franchise, watch out.
- Spend a day or two with a franchisee, working just as you would if you owned the business.

Potential franchisees often "take franchisors at their word," says Rager, "and they don't have to." Educate yourself and be aggressive in your information gathering, he says, and don't proceed unless all your questions are answered satisfactorily.

Congress Looks At Franchising

Franchising is undergoing some close scrutiny by Congress as a result of a number of civil suits filed by franchisees against their franchisors. A high number of franchisee complaints in New York over the past several years prompted Rep. John J. LaFalce, D-N.Y., chairman of the House Committee on Small Business, to commission his staff to compile information on franchising. The staff's 79-page report, *Franchising in the U.S. Economy: Prospects and Problems*, was presented to the committee by LaFalce at a hearing in September. He says the report is the first comprehensive assessment of franchising in nearly two decades.

The report calls for federal legislation that would achieve uniformity of protection of the legal rights and financial interests of franchisees. In addition, the report recommends examination of the adequacy of national data on franchising's growth, sales of franchises, failures in franchising, and franchisors' use of cancellation clauses in contracts to close franchisees' operations.

Despite the growing significance of franchising in our economy, LaFalce says in the report, there has been "relatively little attention given by Congress to a number of serious legal and regulatory issues that remain the focus of controversy and debate in state capitals across the country."

Neil Simon, senior vice president of the International Franchise Association, which represents franchisors, said at the hearing: "The International Franchise Association shares the concern of the House Small Business Committee about improving the availability of data on the increasingly important role that franchising plays in the U.S. economy."

In addition to obtaining more reliable data on the growth of franchising, the report calls for a re-examination of the franchise relationship. The report states: "This is perhaps the most crucial issue for franchisees, whose livelihood and capital investment in a franchise are clearly dependent upon the franchisor's power to terminate, to decline to renew, or to deny the franchisee the right to sell or transfer a franchise."

Continued from Page 48
heads," he says. "We are trying to build a program that has consistency and sustainability." In short, he says, if the recycling business didn't make economic sense, "we wouldn't do it."

Less visible than recyclers of household refuse, perhaps, but no less central to conservation efforts are business-targeted environmental franchises

PHOTO: ©MARK RICHARDS—SIPA

Screen maker *Scott Walker.*

and the environment-conscious efforts of other types of companies.

Restaurants, for example, may keep drains free of grease by using a benign bacteria supplied by Bio-Care, headquartered in Campbell, Calif. For a monthly charge of $250, Bio-Care infuses the bacteria into the grease traps and drain pipes at a customer's restaurant every week. The firm offers the bacteria as an alternative to the chemical anti-clogging solutions used by most eating establishments. Bio-Care says an added benefit of its solution is that the hungry microbes' only byproducts are carbon dioxide and water.

Taking care of sick buildings is the business of Ceiling Doctor International, based in Toronto. The company uses a patented high-pressure cleaning system to remove bacteria that can cause air contamination in office buildings. Ceilings are cleaned for 20 cents to 30 cents per square foot.

Hardee's Food Systems, the fast-food franchisor, based in Rocky Mount, N.C., has changed its packaging so that less paper is used.

Printing shops are among the foremost supporters of recycling. AlphaGraphics Inc., based in Tucson, Ariz., will soon be offering recycled paper through its 300 franchises.

Other printing franchises that have turned to recycled paper include Sir Speedy, an 800-unit chain headquartered in Laguna Hills, Calif., and PIP Printing, in Agoura Hills, Calif.

ProForma, a Cleveland-based franchisor of business products and office supplies, picks up its clients' used business forms for recycling.

Sensitive documents are also getting the recycling treatment. Data-Grater Franchises Inc., based in Woburn, Mass., can take a mobile unit to a customer's office to shred unneeded but still-confidential papers.

To-Your-Door Convenience

During the 1980s, homeowners turned to franchised businesses to help them clean, landscape, paint, decorate, and otherwise maintain their homes. Some savvy entrepreneurs have now taken the to-your-door trend a step farther, offering services that homeowners tend to ignore. For example, Screenmobile Corp., headquartered in San Desmas, Calif., sends a truck to a customer's home to repair or replace screens in doors or windows.

Founder Monty Walker started his customized business in 1984 after visiting a small shop that repaired screens. "The shop owner was rude," and the service was expensive, Walker says. He decided he could have a successful screen-repair business by offering reasonable rates and lots of convenience. Walker's sons also work for the firm;

Scott Walker is vice president.

The homeowner pays about $24 for a new screen and frame for a typical 10-square-foot window; a hinged screen door costs about $165, and a conventional sliding patio door costs $195.

There are 55 Screenmobile franchises in four Western states. A franchise costs $43,000, including the franchise fee. The franchisee also pays a 5 percent monthly royalty on gross sales.

Business-To-Business Services

In 1980, Anthony DeSio decided he could offer small businesses better mail and package delivery than they could obtain through the U.S. Postal Service. With that idea, DeSio started Mail Boxes Etc. in Carlsbad, Calif. Now 10 years—and 29 million packages—later, DeSio has expanded his company's focus to include a wide range of office-support services, such as electronic filing of federal income tax returns with the Internal Revenue Service.

We are committed to meeting an increasing need for services, targeting small-business owners and professionals working out of their homes.

—Anthony DeSio, Mail Boxes Etc.

"We are committed to meeting an increasing need for services targeting small-business owners and professionals working out of their homes," says DeSio, founder of the 1,200-unit franchise. In addition to postal and packaging services, Mail Boxes offers clients fax machines, telephone-answering services, copiers, typing and word processing, other secretarial support, and 24-hour access to personal mailboxes.

Mail Boxes has grown by more than 50 percent each year since it started, says DeSio, and one new center opens every business day. The franchise also has units in Mexico, Japan, Puerto Rico, and Canada. Systemwide sales in 1989 were $338 million.

The steady demand for business services has supported DeSio's growth plans, but he also attributes the company's success to the stability of his franchisee base. Commitment to the franchisee is essential, he says. "Mail Boxes is an exceptionally complicated operation, and we can't risk a high employee

turnover," he says. "Franchisees who have invested funds, time, and energy are in for the long run."

Start-up costs for a Mail Boxes franchise range from $43,095 to $73,430, depending on the size of the store and the types of services offered. Franchisees each month pay Mail Boxes a 5 percent royalty and a 2 percent advertising fee—both based on gross sales.

A Neighborly Welcome

Helping reduce the stress of relocation is a special service that has been a franchise success for a mother-and-daughter team in Southern California. Bright

Low prices, *high occupancy.*

Beginnings, a welcoming service, was founded by Betsy Collins in 1986 as a way to take her mind off her move to Irvine, Calif., after a divorce.

Collins views the service as an updated version of the old-fashioned neighborliness of welcoming newcomers to an area. She and her daughter Melanie Hodgson became partners in 1987. They work with local chambers of commerce, city officials, real-estate agents, and local businesses to offer a comprehensive package of printed materials that describe the community and its schools, businesses, and government. "We link the mayor's office, the city officials, and the local business community to the new family," says Hodgson.

The franchise works with local real-estate agents to determine recent arrivals. "Each business pays $2 every time a welcoming call is made," says Hodgson, and each package contains materials from about 40 businesses. The packet also contains maps as well as information on matters such as obtaining a driver's license and registering a car. Schools and government agencies are not charged for having their materials included in the packet.

About 100 welcoming calls are made each month. Most franchisees can work out of their home, which keeps the overhead low, says Hodgson. Total in-

vestment costs range from $17,000 to $30,000, depending on the size of the territory covered. Franchisees receive five days of training, specialized computer software, an operations manual, and a start-up set of materials. They pay a royalty of 10 percent of gross monthly sales plus 2 percent for regional advertising.

Bright Beginnings was named the Fountain Valley, Calif., 1989 Business of the Year by the local chamber of commerce. Expansion plans include California and its surrounding states.

Cheap Sleep

American travelers are tightening their belts on the road, and the cost consciousness is benefiting budget motel and hotel franchises.

Super 8 Motels Inc., a budget franchise chain that started in 1973, aimed low and came up a winner. Based in Aberdeen, S.D., it has locations along interstate highways in 49 states. Last year the 739-unit chain earned $89 million in revenues.

Super 8's room rates average $34 a night, which keeps its occupancy rates at nearly 70 percent; the industry average is 64 percent, and the break-even point for budget lodging is 61 percent. The company can keep rates low partly because Super 8 Motels cost less to build than nonbudget lodgings. Also, like other budget motels, the chain has a no-frills approach to amenities. Most budget motels offer clean rooms with a bed, bath, telephone, and color TV.

Compact rooms, *compact rates.*

Yet even more economizing is possible in the lodging industry, says Loren Ansley, president of Microtel Franchise & Development Corp., which last year opened its first Microtel motel, in Rochester, N.Y. "We devised a true limited-service property, with no amenities," Ansley says. Microtel's rooms are 30 percent smaller than the standard economy room. Built-in furnishings maximize room space and minimize housekeeping time.

Small rooms mean more rooms per location. That translates into proportionately lower land and development costs, lower building costs, and thus lower nightly rates. A room at a Microtel is $25 to $30 a night. Occupancy rates at its Rochester flagship facility are running 94 percent, according to Ansley. His strategy is to locate Microtels near existing budget motels, he says. "I call it parasite marketing."

Microtel opened its second location in Lexington, Ky., this past summer, and two more Microtel operations are planned—one in Buffalo, the other in Watertown, N.Y.—this year or next. Expansion plans are aggressive, with a target of 400 new properties by 1995. Developers need $2.6 million to build a Microtel. Franchisees can then buy the franchise for $25,000 plus $250 per guest room.

With tougher economic times predicted, budget lodgings will see themselves in a position to target the cost-conscious traveler. ■

Family Business

The heart of the matter; charting a firm's future; dealing with Dad.

COMMENTARY

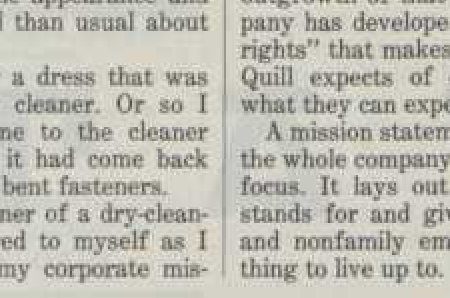
The Mission Of Finding A Mission

By Sharon Nelton

I've been thinking a lot about the importance of business mission statements lately. Maybe my preoccupation with them began the awful morning I had to make a public appearance and was more concerned than usual about looking good.

I decided to wear a dress that was fresh from the dry cleaner. Or so I thought. It had gone to the cleaner whole. I discovered it had come back with a torn hem and bent fasteners.

"If I were the owner of a dry-cleaning shop," I muttered to myself as I mended the hem, "my corporate mission would be to make customers look sharp and feel confident." I was in a sweat as I raced to finish the hem quickly enough to get to work on time. The sweat was not enhancing my self-esteem.



Nelton: *"Everything in a company grows out of its mission statement."*

Devising corporate missions that get to the heart of the matter is no easy task. Perhaps it could be said that dry cleaners are not in the cleaning business; they're in the image-making business.

Family businesses stand a better chance than most companies of identifying missions that really reflect the essence of what their stakeholders—customers, employees, suppliers, community, and shareholders—want and need. For one thing, family-business members are often deeply entrenched in their communities. This makes them sensitive to community needs and puts them in a good position to develop a mission that is truly meaningful to customers and community alike.

Everything in a company grows out of its mission statement—its behavior, its structure, and all of its strategic planning and decisions. The mission statement of Quill Corp., a family-owned office-supply company based in suburban Chicago, speaks of creating "an atmosphere in which people can develop to their fullest potential." As an outgrowth of that statement, the company has developed a "two-way bill of rights" that makes clear not only what Quill expects of employees but also what they can expect of Quill.

A mission statement sets the tone for the whole company and provides it with focus. It lays out what the company stands for and gives family members and nonfamily employees alike something to live up to.

To do that, of course, it needs to be shared with everyone in the company. Even how it is shared may reveal something. I was reading a placard on which was printed the mission statement of Diversified Services, Inc., which operates Budget Rent a Car franchises in such locations as Miami and Los Angeles. I turned over the placard and found the statement repeated—in Spanish. This told me that here was a family firm with great respect for its Hispanic employees and the desire to make sure that they, too, understood the company's goals.

Perceptive owners search beneath the surface in identifying their company's mission. Like the founder of a family-owned hardware business who told me it wasn't really hardware his customers were after. "A customer may come in to buy a quarter-inch bit," he said. "He doesn't really want a quarter-inch bit; he wants quarter-inch *holes.*" His company's mission, he said, was to solve the customer's problem.

I figure he would understand that I don't send my clothes to the dry cleaner just because I want them cleaned.

PLANNING

Growing Without Losing Control

By Craig E. Aronoff and John L. Ward

Good entrepreneurs with capable children in their companies agonize over whether to build their businesses or conserve cash for estate-planning requirements.

Cash not used for growth is available for secure retirement and inheritance taxes.

But by nature, entrepreneurs don't like to lose to competitors or turn down attractive opportunities. They hate the prospect of telling good managers to be less aggressive in building the business so that the business can be available to the next generation.

Last month we explored one approach for dealing with this dilemma. But the advice we offered—to seek business strategies that demand less cash—often isn't practical. What, then, to do? Can a private company finance expensive growth without selling some or all of its stock to outsiders and losing control? Very possibly.

There are two other avenues to pursue: decreasing the owning family's appetite for cash or using "other people's money."

Minimizing Cash Demands

Among the biggest expenses confronting a successful family business are estate taxes. Minimizing that cash demand is the top priority. Probably the best first step is for parents to make stock gifts to the next generation, however young, as early and as aggressively as possible.

Getting the growth of equity (and, yes, with it necessarily the voting right of ownership) into the hands of the next generation tremendously reduces the tax burden.

For many parents, it pays to give even more than the $600,000 allowed by unified lifetime gift provisions, even if some gift taxes must be paid. The goal is to stop the rewards of equity growth from accumulating in the parents' estate.

We remember well these words from

a member of the wealthiest family we have ever met: "We gift everything we can to children and grandchildren as soon as they're born. Some thought I was crazy to give up official control, but I've never thought twice about it."

A second-best alternative for meeting estate taxes and other needs at death is life insurance. But remember, it's hard and expensive to keep the insurance growing as fast as the business's value. And insurance that pays on death, of course, helps neither with retirement nor in passing ownership to the next generation while the current owners are still alive.

If stock has already passed to family members who are not active in the business, consider making buy-back plans now.

As the president of a fourth-generation metal-stamping plant explains:

ILLUSTRATION: JIM STARR

"We've learned that pruning the family shareholder tree is inevitable. Doing so has kept our business alive not only for family members who became active in management but also for the welfare of all of our employees. Inactive family shareholders eventually want dividends or to sell back their stock. We like to keep that from disrupting our business and our growth plans."

One way to keep future redemptions less punishing to the business is to negotiate the terms now. The sooner that the agreement is discussed, the more likely the valuation formula and the installment payout schedule will be favorable to the company's continuity.

Another way to delay and/or lessen dividends and redemptions is for family members to understand the benefits of holding on to their stock and limiting their dividend expectations. With a strong work ethic, family harmony, and the family's respect for the business and its heritage, family members' financial demands are minimized. Many families work hard, through family meetings, to strengthen these values and understandings.

Raising Cash

The third approach to growing without losing control is to raise more cash without selling stock in the business. Here are some ideas:

- Borrow more money from banks to finance family stock purchases or business growth requirements.
- Sell physical assets you now have and lease them back if you need them in your day-to-day operations. (Many private companies are selling their real estate now. Returns on real estate are often much lower than the returns on new business growth.)
- Look for joint-venture partners to help finance new businesses while keeping the historic core business in the family's control.
- Syndicate the financing of separate new operations, such as stores or restaurants, to people with money who want you to run the business and will pay you to do so.

If you really want to leave a business to the next generation, you can't start planning soon enough. The sooner you start, the more able you are to design business strategies that conserve cash, the more able you are to reduce estate taxes and family demands for cash, and the more creative you can be in using other people's money.

Each of the three general approaches we've suggested has some merit. Some business owners we know are successfully pursuing conservative growth plans. Others devote considerable energy to limiting future claims by stockholders and Uncle Sam. Some are comfortable increasing leverage or working with investment partners. Others combine all three.

The approach you choose will depend on your personality and your business circumstances. For all family businesses, however, planning ahead and getting quality advice are essential for keeping the business in the family. The goal is to have your growth and let the next generation enjoy it, too.

PHOTO: T. MICHAEL KEZA

John L. Ward is the Ralph Marotta professor of private enterprise at Loyola University of Chicago. Craig E. Aronoff holds the Chair of Private Enterprise at Kennesaw State College, in Marietta, Ga. Both are family-business consultants.

Mark Your Calendar

Nov. 7, Oshkosh, Wis.

"Building a Successful Family Business," a one-day seminar offered by the University of Wisconsin-Oshkosh. Contact UW-Oshkosh Business Development Center, Oshkosh, Wis. 54901; (414) 424-1453.

Nov. 8-10, Carlsbad, Calif.

"Your Family-Owned Business: How to Build It, Manage It, Make It Last," a conference sponsored by the nationwide accounting and business consulting firm of Laventhol & Horwath. Featured speaker is Peter Davis, director of family-business studies at the Wharton School of the University of Pennsylvania. Call Nancy Cohen at (800) 521-1818.

Nov. 9, Indianapolis

A one-day Family Business Conference will address the issues and challenges of family-business ownership. Featured speaker is *Nation's Business* family-business columnist John Ward. For information, call the Indiana Institute for New Business Ventures at (317) 264-2820.

Nov. 14-16, Cleveland

"Managing Succession Without Conflict in the Family-Owned Business," a seminar for business owners, their spouses, successors, and key managers. To be conducted by nationally known family-business consultant Léon Danco. Contact the Center for Family Business, 5862 Mayfield Road, P.O. Box 24268, Cleveland, Ohio 44124; (216) 442-0800.

Nov. 26-28, New York

"The Family Business Experience," a program enabling family members to share their ideas about succession planning, relations with nonfamily members, and the role of women in a family firm. Contact the Center for Entrepreneurial Management Inc., 180 Varick St.—Penthouse, New York, N.Y. 10014; (212) 633-0060.

How To Get Listed

The Family Business Calendar lists national and regional events that are open to the public. Send listings three months in advance to Family Business, Nation's Business, *1615 H Street, N.W., Washington, D.C. 20062.*

Last year, George Fenton was involved in 465 burglaries, 217 fires, 35 high-speed chases, 13 stock car races and 2 hurricanes.

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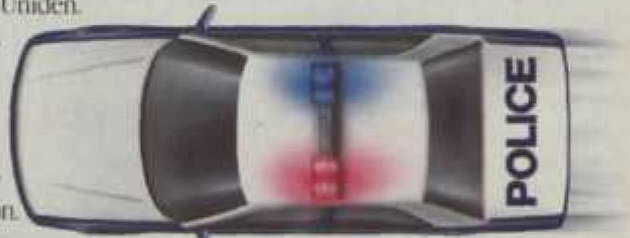

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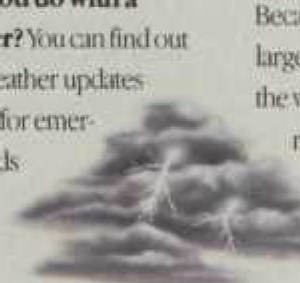

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CASE STUDY

Sabotaged By Her Own Dad

ILLUSTRATION: JIM STARR

Monika has a history of fighting with her father, Jon, who mistreats and undermines her in the printing business that he founded. "He steps all over me, and then I'll forgive him," says Monika, 28, the firm's vice president for sales.

Monika's parents divorced when she was a child. She became the emotional "support person" for her mother and younger brother. When her mother remarried, Monika felt deserted and moved in with Jon, who enjoyed a steady stream of girlfriends.

After college and two years of working for a headhunting firm, Monika was invited by her father to join his business. It was prosperous, but Jon was tired and wanted to delegate some responsibilities. And he wanted Monika to be his successor. "He promised me the world, and I wanted to help him," Monika recalls. Her salary was small, but she had the use of a car, and the business paid her rent.

She would have been comfortable except for a series of episodes in which Jon would undo what she did and criticize her in front of others. She would threaten to quit, but Jon would apologize and beg her to stay. Monika began to realize that the fights followed a pattern: Every time Jon broke up with one of his girlfriends, he would become depressed and critical of Monika's work.

Fed up, Monika got a job in an advertising agency, where she became successful. She also dated, but she tended to choose boyfriends who, she says, "would take but not give."

Eventually, she and Jon began to renew their relationship. When he asked her back to the business because he "needed her" and "he was tired," she stipulated that she be paid a substantial salary, that she be given a partnership, and that succession plans be laid out. Jon agreed, and Monika left the ad agency, which promised an open door for her if she wished to return.

But Jon didn't keep his promises about the partnership and the succession plans. And before long, after a breakup with yet another girlfriend, he undid months of Monika's work, changing computerized systems that she had had installed and firing her assistant.

"I have never been so angry," Monika fumes. "I think I should be somewhere else." Is that the answer?

PHOTO: ©WADE THRALL

Don't Repeat Mistakes

Charles W. Murdock, professor of law at Loyola University of Chicago and partner with his wife in Murdock & Murdock, a family-business consulting firm:

With the invitation to return to the advertising agency, Monica could go "somewhere else," or she could choose to stay in her father's company. However, she needs to identify why she returned despite his abuse. If the only reason was to "help Dad," then the agency is a healthier alternative. But if she enjoys the challenge of managing a business and sees potential in the family firm, she could attempt once more to structure her position within it.

While Monika is distressed by Jon's actions, she needs to recognize that she too has responsibility. In view of Jon's consistent mistreatment after a romantic breakup, she might have anticipated his reactions. She needs to make it clear that she will not continue in the business unless she is accorded respect. In order for there to be a positive, permanent change in their relationship, they need to work with a family therapist familiar with family-business issues.

The opportunity to go back to the ad agency gives Monika the leverage to clarify what ought to have been addressed before she returned to Jon's business. Their respective areas of responsibility must be defined and her equity interest in the company should be spelled out. A succession plan should address timing and finances.

Jon will never retire unless the economics are right for him: possibly a funded retirement plan, coupled with a buyout upon his retirement. But both Monika and Jon need to realize that they either work it out this time or Monika must go her separate way.

©SAL DIMARCO JR.—BLACK STAR

Examine The "Need To Care"

Matilde Salganicoff, founder of a seminar for women in family business and head of the Family Business Consultancy, Philadelphia:

Monika became the caretaker of her family. She is what is called "a parental child." Even after she begins to see how she allows her father to abuse her in the business, she cannot leave.

She feels sorry for Jon when he is alone or sad and believes it's her duty to help him. The business is the trap where she is constantly available to support him. She has the same pattern of relationships with boyfriends.

Monika is an extreme example of the many women—daughters and wives—who join a business "to help" without considering the job as an initial step in a career. When Monika finally began to think in terms of her future, she was unsuccessful in getting Jon to join her. He may have been unable to see the need for such thinking because he believed she would be "protected" by his estate. Or he may have felt too threatened by the necessity of drawing up complicated financial and succession plans. Or Monika simply was not forceful enough. Perhaps it was all of the above.

Monika has invested enough time and effort in trying to make Jon's business into a family business. It's time for her to leave the company. Opportunities, old and new, are open to her.

But she needs more than just to leave the business. She needs professional counseling to understand her "need to care" at the expense of her emotional well-being and career. Only after she frees herself of her compelling need to help should she make another attempt to enter Jon's business. Then she should do so only if she can involve Jon in counseling with an expert on family-business dynamics.

This is one of a series of case studies of family-business dilemmas, commented on by members of the Family Firm Institute and edited by Cleveland business consultant Ernesto J. Poza. The cases are real, but identities have been changed to protect the privacy of the individuals involved. The authors' opinions do not necessarily reflect the views of the institute.

It's Your Money

A monthly survey of strategies, tactics, tips, and suggestions to help you with your personal finances.

By Peter Weaver

VACATIONS

The Long And Short Of Winter Getaways

According to a psychologist who is an expert on the subject of adult play, it may be better for some couples to take more minivacations to nearby hideaways than to take one big trip to some far-off place of sun or snow. Dr. Hy Day, professor of psychology at York University in Toronto, explains:

"You've been dreaming about it for months. A vacation in Europe, at the beach, or at the ski slopes. Sounds great, doesn't it? But, watch out. You could be entering the Vacation Trap, where dreams can be turned into nightmares."

What's the problem? "Long vacations that cost a lot of money can become stressful because you're putting all your emotional—and financial—eggs in one basket," Day says. "You spend a lot of time and money and end up feeling guilty and grumpy."

When you take more frequent vacations of the long-weekend type, Day believes, you can keep your "intimacy batteries" charged up without having to go through the financial and emotional strain of pinning all your hopes on The Big Vacation.

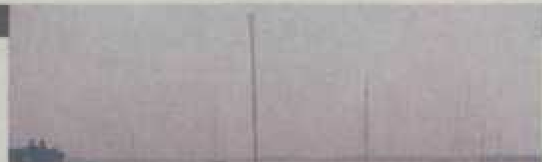


PHOTO: ©DICK DURRANCE—WOODFIN CAMP

Weekend escapes: *just as satisfying.*

The hotel industry is certainly willing to cooperate. Many deluxe establishments, complete with Jacuzzi tubs and deals on meals, offer spectacular weekend packages at 50 percent off the normal workweek rates.

Such posh places, as well as inviting inns and bed-and-breakfast establishments, can often be found within a few hours' driving time.

The idea is to get away, change the scene. "Look up the word 'vacation' in the dictionary," Day suggests, "and you'll find that it means a respite from something."

Of course, longer, costlier vacations can be exciting, and many monied couples prefer them. "But a lot depends on your vacation personalities," Day says. One partner may like a structured vacation with meals, sightseeing, skiing, or sunning all paid for. The other, something more adventuresome.

Some couples find they can take a vacation at home—away from work, but at home. But be sure to plan what you want to do. One partner may think a home vacation involves decorating and repairs; the other may envision sleeping and reading novels.

If partners don't discover what kind of leisure-time people they are and level with each other, Day says, they could end up with a financially, and emotionally, "overcharged" vacation.

TAXES

Year-End "Tax Cleaning"

If you do your spring cleaning now—before the year ends—instead of waiting until spring, you could help a charitable cause and pick up some valuable tax deductions to boot.

When you clean the place for the holidays, you might find old toys, radios, TV sets, appliances, bicycles, books, lawn mowers, clothing, furniture, and other items you no longer want.

Local charities, such as Goodwill Industries, the Salvation Army, and Amvets, are looking for items that they can give to needy families or sell in order to raise funds. Some charities will send a truck to pick them up. Others may want you to make the delivery.

All of the organizations decline to accept unusable junk. Goodwill Industries, however, will accept potentially usable items that need repair, so that they can be fixed for resale by disadvantaged individuals who are hired and trained by Goodwill.

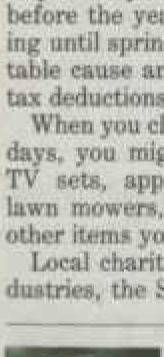
Before you make your donation, assign each item a "fair market value" dollar figure. The Internal Revenue Service says this is a "price at which property would change hands between a willing buyer and a willing seller."

Sometimes this value is hard to determine short of having a garage-sale rehearsal. "If an item is in good condition," says Silver Spring, Md., accountant Paul Offenbacher, "I think you can say it's worth around 20 percent of its original purchase price."

To nail down your deduction, make an inventory with a price tag for each item and total it up. Have one of the charity's employees sign and date your list. The charity can keep a copy, and you keep one.

If the charity won't sign anything that has a dollar amount on it, get a receipt stating that you gave "five boxes of donated personal property," or some other such description, and clip it to your inventory.

When you make donations that exceed $500, you must attach IRS Form 8283 to your tax return. You must also provide a description of each item that was given, as well as the date it was acquired (you may have to make an educated guess), its donation date, purchase price, and your estimate of each item's fair market value. ■



Peter Weaver is a Washington-based columnist on personal finance.

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For Your Tax File

What you need to know to keep taxes from overtaxing you.

By Gerald W. Padwe, C.P.A.

AUTOMOBILE COSTS

Reimbursement Flexibility

For many years, employees who have been required to use their own cars for business have been reimbursed in either of two ways. Each has given the employer a measure of certainty and simplicity but has had the potential of saddling the employee with some inequity and complexities.

Under one of the methods, the employer can reimburse at a standard mileage rate per business mile driven, currently 26 cents. Note, however, that the standard of 26 cents per mile applies regardless of whether an employee's car cost $8,000 or $20,000.

The other method permits the business to pay a flat amount as an automobile allowance. That amount is fully deductible by the employer as compensation to the employee, but the employee gets no deduction except to the extent that he or she substantiates the cost of using the car in the business. This cost then is subject to the 2 percent adjusted gross income limitation applicable to miscellaneous itemized deductions.

To provide somewhat more flexibility in auto-expense reimbursement plans, the Internal Revenue Service recently approved a new option, called fixed and variable rate payments (FAVR). What sets FAVR apart from other plans is that payments to employees are made based upon a standard automobile selected by the employer. The employee is not required to drive that type of car; rather, actual reimbursement to employees will be based upon projected fixed and variable costs of owning and operating the "standard" car.

To determine reimbursement for gasoline, oil, tires, repairs, and routine maintenance, the standard vehicle's projected operating costs for a period (which can be one or more years) are divided by projected total miles for that same period. The employee is then reimbursed for the per-mile cost times the number of business miles driven.

For depreciation, insurance, licensing, and registration, the employer must determine those projected costs in the employee's locality. For example, insurance rates may vary widely from place to place for the period—it must be at least two years—that the employee would be expected to use the car before trading it in. To calculate the standard auto reimbursement for fixed costs for each period, the company divides those costs by the number of payments to be made during the expected ownership period and multiplies the result by the percentage of the projected business use of the car.

PHOTO: T. MICHAEL KEZA

Car costs: *a reimbursement option.*

There are many limitations spelled out in the FAVR rules. A plan may not be set up unless at least 10 employees are covered at all times during a calendar year. The allowance is available only to employees using their car for at least 5,000 business miles a year. Any officer whose compensation exceeds $50,000 or who owns 1 percent or more of the company cannot receive FAVR allowances. Leased cars do not qualify. Record keeping is a significant burden.

Most employers will not be able to implement this new approach without consultation with their tax advisers. Still, where more flexibility is required than under previous automobile reimbursement approaches, the FAVR alternative should be considered.

Gerald W. Padwe is associate national tax director for professional practice for Deloitte & Touche. Readers should see tax and legal advisers on specific cases.

TAX BENEFITS

September Expirations

By letting a number of tax breaks expire part way through the calendar year, Congress in effect requires businesses to operate under one set of rules for the bulk of the year and then to abide by a different set of rules for the final months.

As the end of September approached, it became clear that the exclusions, deductions, and credits listed below would not be renewed before they were scheduled to expire Sept. 30.

The best that business could hope for in the face of the deadline was renewal of these tax benefits later in the year, preferably retroactive to their expiration date. (When Congress fails to complete its work before Election Day, it can meet afterward in a lame-duck session.)

Why does Congress procrastinate on these tax matters?

The simple answer is the Gramm-Rudman-Hollings deficit-reduction law.

A year ago September, as they were dealing with the federal budget for the fiscal year that started Oct. 1, 1989, the lawmakers decided that an easy way to increase future revenues—and thus presumably decrease projected deficits over the next five years—would be to permit certain tax deductions and credits to expire at the close of the federal government's fiscal year, on Sept. 30, 1990.

Here are some of the tax benefits that expired at the end of September and that were expected to be the subject of legislation for reinstatement:

- The exclusion of employer-provided educational assistance from employee income.
- The exclusion of employer-provided group legal-service plans from employee income. (This actually expires for employer tax years beginning after Sept. 30.)
- The 25 percent deduction for health-insurance costs of self-employed individuals.
- The apportionment of research expenses between U.S. and foreign-source income.
- The targeted-jobs credit.
- The credit for a business's expenditures for solar and geothermal energy. NB

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Direct Line

In which experts answer our readers' questions about starting and running their businesses.

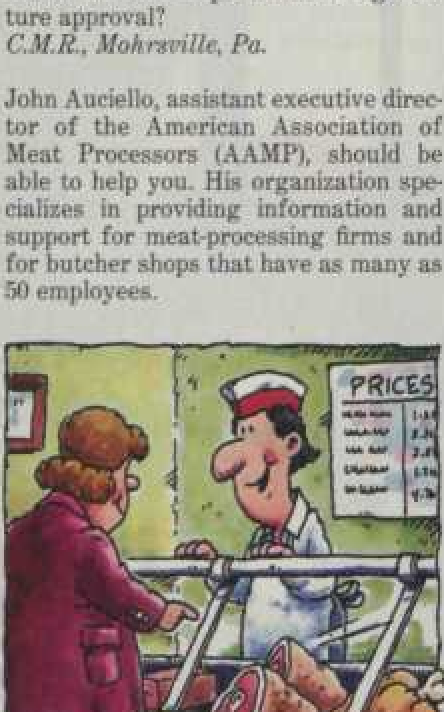
By Meg Whittemore

FOOD RETAILING

Meat Counters

My husband and I are looking into starting a butcher shop. Do you have any information that might help, including the guidelines we would have to follow for U.S. Department of Agriculture approval?
C.M.R., Mohrsville, Pa.

John Auciello, assistant executive director of the American Association of Meat Processors (AAMP), should be able to help you. His organization specializes in providing information and support for meat-processing firms and for butcher shops that have as many as 50 employees.



ILLUSTRATIONS: DAVE ALLEN

Auciello says the old-fashioned butcher shop—a shop selling only raw meat and poultry—is virtually extinct. Today, most retail butcher shops sell not only fresh meat but also cooked meats, processed meats, salads, sandwiches, and catering services.

If you plan to wholesale your cooked or fresh meats, you must pass inspection by state or federal inspectors. The AAMP can help you find out exactly what regulations apply to your business.

The association can supply sample blueprints for laying out processing plants, plus videotapes on all aspects of running a butcher shop. In addition, the organization offers a special insurance program as well as a series of educational seminars.

Write or call Auciello at the American Association of Meat Processors, P.O. Box 269, Elizabethtown, Pa. 17022; (717) 367-1168.

TRAVEL AND TOURISM

Tapping The Top Ten

How can I find out which travel agencies are among the top 10 in the U.S.?
A.F., San Francisco

The American Society of Travel Agents tracks U.S. travel agencies by size and by their levels of sales. Nozawa Hiroko, a staff member of the organization, will be happy to provide you with the information you need. Hiroko ranks the agencies according to the revenue they produce. Write or call Hiroko at the American Society of Travel Agents, 1101 King St., Suite 200, Alexandria, Va. 22314; (703) 739-2782.

FINANCIAL SERVICES

Credit Connections

We are interested in opening a credit bureau in our town.

How do we go about becoming a member of one of the credit bureau affiliates?
E.A.P. Jr., Douglas, Ga.

Most of the 1,100 to 1,200 credit bureaus in the U.S. are affiliated with or subscribe to one of three so-called credit repositories, which supply credit information to the bureaus, says Marvin Kaplan, a spokesman for Associated Credit Bureaus, an industry association.

For information on subscribing to one of the three large credit companies, contact Kaplan at the association, 16211 Park Ten Place, Houston, Texas 77218; (713) 492-8155 or (713) 995-5656.

ENTERTAINMENT

Going To The Movies

I am interested in opening a movie theater. Is there some sort of trade association that could help me?
T.D., Macon, Mo.

Owning and running a movie theater is a "365-day-a-year business," says Mary Ann Grasso, executive director of the National Association of Theatre Owners.

Grasso says opening a theater is "a complicated process" in which region makes a difference, start-up cash is a must, and a thorough understanding of the movie theater business is important. Grasso invites you to call her at (818) 506-1778.

For a list of publications on the subject, write to the National Association

of Theatre Owners at 4605 Lankershim Blvd., Suite 340, North Hollywood, Calif. 91602-1891.

PAPER PRODUCTS

For Reading And Writing

I want to open a store selling books and stationery, and I need information on suppliers and start-up.

Also, I would like to speak with someone who has retired from this kind of business.
S.S., Valley Stream, N.Y.

Start with the American Booksellers Association, 137 W. 25th St., New York, N.Y. 10001; (212) 463-8450. The association will send you free membership information, a copy of the monthly publication *American Bookseller*, and materials on the association's school for booksellers, its annual convention, and its trade shows.

For similar information on stationery suppliers and distributors, contact the Wholesale Stationers Association, 1701 East Woodfield Rd., Suite 403, Schaumburg, Ill. 60173; (708) 240-1909.

The Service Corps of Retired Executives (SCORE) can help you with locating a former bookstore owner.

Call the business-development department of the Small Business Administration's district office in New York City at (212) 264-1318. Ask for the SCORE office closest to you.

RETAILING

On The Record—And The CD

Please provide me with a source of information on opening a store to sell records and compact discs, and information about purchasing CDs from manufacturers.
P.F.C., Erie, Pa.

Kathy Gilmore, assistant for membership development with the National Association of Recording Merchandisers, can send you the association's free information kit. It includes tips on starting a record and compact-disc shop. The organization's members are retailers, manufacturers, distributors, and others

involved in the record industry. The association offers nonmembers free help with business plans, statistical information on the industry (for use when applying for a bank loan), and a list of "one-stops," which are companies that offer everything you might need to open a store.

For more information, write or call Gilmore at the National Association of Recording Merchandisers, 3 Eves Drive, Suite 307, Marlton, N.J. 08053; (609) 596-2221.

DRY GOODS

Yard Work

I want to open a fabric shop but have no idea where or how to start. Can you give me any help?
E.M.E., Sylmar, Calif.

Start by contacting the American Home Sewing Association. Its members include fabric-shop owners, manufacturers of home sewing items, educators, wholesalers, and chain stores. The association offers free information on all aspects of the industry. Write or call Joan Katz, educational director of the American Home Sewing Association, 1375 Broadway, 4th Floor, New York, N.Y. 10018; (212) 302-2150.

You also may want to talk with a retiree from the fabric industry. Mark Sewall, director of the national office of the Service Corps of Retired Executives, says you can find the SCORE office nearest you by calling the business-development department of the San Diego office of the Small Business Administration, (619) 895-7252.

DAY CARE

For The Elderly

I want to start a day-care business for the elderly and would like to know what is involved.
J.G., Alice, Texas
(Similar question from K.J., Tulsa, Okla.)

To succeed in taking care of the elderly, "you must really love the work," says Lisa Rathmann, information specialist for the National Institute on Adult Daycare, a constituent unit of the National Council on the Aging. Careful thought and preparation are needed, she adds, especially regarding your state's regulations, licensing requirements, and certifications.

Publications on day-care centers for adults are available from the institute for $5.95 to $15 apiece. They cover subjects such as developing a center, industry standards, historical background, and individual state regulations and licensing requirements.

A national survey that lists adult day-care centers by state is also available to you for $15.

For more information, write or call Lisa Rathmann at the National Council on the Aging. The address is 600 Maryland Ave., S.W., West Wing 100, Washington, D.C. 20024; the phone number is (202) 479-1200.

HOW TO ASK

Have a business-related question? Send your typewritten query to Direct Line, *Nation's Business*, 1615 H Street, N.W., Washington, D.C. 20062. Writers will be identified only by initials and city. Questions may be edited for space.

The editors of Direct Line have compiled the most-asked questions into the compact *Your Small Business Survival Guide*, at $3 a copy. To order, write to the Circulation Department at the address above. NB

THIS MONTH'S MOST-ASKED QUESTION

Settling On A Structure

Should you incorporate your business, form a partnership, or go it alone as a sole proprietor? Such questions about how to structure a business come across our desk frequently, and they cannot be answered easily. Tax experts say that because business situations vary, the key is to select the ownership arrangement that makes the most business sense for you.

Basically, all businesses are organized as sole proprietorships (one owner), partnerships, regular corporations, or S corporations (named after the section of tax law that authorizes them). Before choosing one structure over another, consider three variables: control, liability, and taxes.

Sole proprietorships, the simplest and most flexible, give the owner complete control. However, if the business is sued and the plaintiff is awarded damages, the owner is personally liable for those damages.

Partnerships are similar to sole proprietorships, but they differ in the number of individuals sharing control of the company—and sharing liability.

For information on the legal aspects of partnerships, get the *Coopers & Lybrand Guide to Growing Your Business*, by Seymour Jones, M. Bruce Cohen, and Victor V. Coppola (John Wiley & Sons, $13.95). The book deals also with liabilities and taxes.

Also see *Effective Small Business Management*, a textbook by Norman M. Scarborough and Thomas W. Zimmerer (Merrill Publishing, $34.95). It explores tax matters, the pros and cons of partnerships, and other topics.

Forming a regular corporation or an S corporation typically requires the help of a lawyer and other professionals, particularly an accountant. Unlike a regular corporation, an S corporation is not subject to double taxation of dividends. Double taxation occurs when a corporation is taxed on its earnings and then shareholders are taxed on the earnings distributed as dividends.

For more information on various types of business organization, pick up a copy of *The Arthur Young Business Plan Guide* (John Wiley & Sons, $22.95). For a good how-to guide to incorporating, read *How to Incorporate: A Manual for Entrepreneurs & Professionals* (John Wiley & Sons, $17.95), by Michael R. Diamond and Julie L. Williams.

To Your Health

Managing well includes managing your own health; here is advice to help you do that better.

By Marcia J. Pear

When The Aches And Pains Aren't Arthritis

If you're continually exhausted, depressed, sore all over, and unable to get a good night's rest, you may simply be working too hard—or you may be an unwitting victim of fibromyalgia syndrome, a stress-related condition that primarily affects women aged 20 to 55 and mimics other ailments, most notably arthritis.

Though the term fibromyalgia syndrome won't ring a bell with most people, the condition affects an estimated 3 million to 6 million Americans and is a major cause of lost work time and disability. Obtaining an accurate diagnosis is difficult. The hallmarks of fibromyalgia—widespread muscular aches, generalized fatigue, and specific "tender points" on the body that are painful to the touch—have been mistaken for everything from multiple sclerosis to Epstein-Barr virus (now known as chronic-fatigue syndrome) to psychosomatic illness.

Fortunately, fibromyalgia syndrome is not life-threatening, does not worsen with time, and can be effectively treated to enable you to resume a normal, active life.

Medical understanding of the syndrome has evolved considerably since it was first described as "fibrositis" by British physician William Gowers in 1904. For many years, the condition was thought to be, like arthritis or bursitis, a form of rheumatism, which involves inflammation of the body's connective tissues. But examination and testing of patients consistently failed to reveal any evidence of joint inflammation.

Only in the past decade did researchers discover what has become the gold standard for identifying fibrositis: 18 specific "tender points" that occur on the neck, shoulders, elbows, chest, back, buttocks, and knees. Sensitivity in at least 11 of these 18 identified points, coupled with widespread muscle pain, is now considered sufficient for a diagnosis of fibromyalgia. (Since "itis" refers to inflammation and "myalgia" to muscle pain, "fibromyalgia" has replaced fibrositis as a more appropriate description of the syndrome.)

PHOTO: ©ED ELBERFELD—UNIPHOTO

Stress can be *a pain in the neck—and many other places, if you have FMS.*

Searching for the causes of fibromyalgia requires a collaborative effort between you and your doctor. Dr. Paul Davidson, associate clinical professor of medicine at the University of California Medical Center, San Francisco, and author of *Chronic Muscle Pain Syndrome* (Villard Books), believes a patient's history is paramount. "Stress and poor physical conditioning are both major factors," he says. "How you typically deal with the stressors in your life can play an important role in making a diagnosis of fibromyalgia. Ask yourself: Am I tense? Have I been sleeping poorly? How am I balancing my job, my marriage, my social life?"

Another theory focuses on organic or biochemical changes. Dr. Don Goldenberg, professor of medicine at Tufts University School of Medicine and chief of rheumatology at Newton-Wellesley Hospital, in Boston, explains that "an 'infectious agent' can lie dormant in your body, to be triggered by some trauma to the system. If you catch the flu or have an accident, this could disturb the body's delicate hormonal balance and lead to fibromyalgia."

While medicine can offer an array of treatments, including stress reduction, strengthening exercises, and low-dose medications to help normalize the sleep cycle, often the most important component of the healing process is an accurate diagnosis. "Just the knowledge that your various complaints have a name and a physical basis can greatly alleviate your fear and motivate you to take an active role in getting well," observes Goldenberg.

He makes it a point to ask his patients what they do for a living. "Low back pain, neck and shoulder problems may be easily corrected by installing ergonomic seating at work, by getting up from your desk or computer terminal to stretch every half-hour, and by getting moderate exercise," he says.

In his book, Davidson describes a seven-step therapy program that he calls RETRAIN, an acronym for the major components of the program. The plan calls for rest and relaxation, educating yourself about your condition, therapeutic muscle training, revamping your responses to stress, analgesics and injections at tender points for temporary pain relief, and never giving up hope.

Despite the medical label of fibromyalgia as "incurable," Goldenberg says that 25 percent of his patients become totally symptom-free anywhere from six months to six years after onset.

Davidson, who has been working with fibromyalgia patients for 30 years, concurs. "I'll see someone's symptoms disappear for months or even years, but if the situation that caused them to become vulnerable to fibromyalgia returns, often so do the symptoms."

The key to eliminating that persistent pain in the neck—or back, or buttocks—seems to be twofold: recognizing the circumstances that contributed to fibromyalgia in the first place, then making a conscious effort to change your behavior and environment in ways that are more conducive to good health. **NB**

Marcia J. Pear is a free-lance writer specializing in health issues and principal of Pear Communications, a San Francisco marketing communications firm.

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Where I Stand

This Month's Issue: Labor Availability

Your responses to these questions on the challenges facing employers in the labor market of the 1990s will be used in our February cover story. **You can fill out the attached postage-paid card or fax this page to 202-463-5636.**

1. How would you describe the supply of skilled labor for your employment needs over the next five years?

- ❑ Abundant
- ❑ Above average
- ❑ Adequate
- ❑ Inadequate

2. How often are you experiencing difficulty in finding qualified workers for the jobs you must fill?

- ❑ All the time
- ❑ 75 percent of the time
- ❑ 50 percent of the time
- ❑ 25 percent of the time
- ❑ Never

3. In hiring, how often do you find workers who already have the skills you need?

- ❑ All the time
- ❑ 75 percent of the time
- ❑ 50 percent of the time
- ❑ 25 percent of the time
- ❑ Never

4. What are your total annual costs for training workers to do the jobs for which they are hired?

- ❑ Nothing
- ❑ Under $5,000
- ❑ $5,000 to $7,000
- ❑ $7,000 to $10,000
- ❑ Over $10,000

5. What percentage of your workers would you say have a dedicated and flexible attitude about the work they perform?

- ❑ 0 to 20 percent
- ❑ 21 to 40 percent
- ❑ 41 to 60 percent
- ❑ 61 to 80 percent
- ❑ 81 to 100 percent

6. How are you handling cultural diversity in your company?

- ❑ Training supervisors to manage diverse work forces
- ❑ Providing literacy training
- ❑ Supplying mentors to assist culturally diverse employees
- ❑ Doing nothing
- ❑ Other

For Fax Response, Please Complete The Following:

Fax To Nation's Business, 202-463-5636

Please tell us how many employees you have: ______

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Title ______

Company ______

Address ______

City ______ State ______ Zip ______

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It's the definitive voice for business in Washington, a federation of 180,000 businesses large and small, state and local chambers, trade and professional organizations, American Chambers of Commerce abroad.

Right now, the Chamber is fighting government mandates on employee health insurance, wages, and parental leave. And struggling to prevent new taxes and to cut Social Security payroll taxes, capital gains taxes – the list goes on and on.

So does the fight. Congress as "raider" must be opposed. Call 1-800-638-6582 and join the U.S. Chamber. You can't run your business and ward off government intrusion at the same time. The Chamber gives you a fighting chance.

Join the U.S. Chamber.
Because the fight goes on.

COMMENTARY

Editorial

For The U.S. Chamber Of Commerce, The Fight Goes On

PHOTO: FRANCES BORCHARDT

President Lesher *tells media that U.S. Chamber is opposed to the budget-summit plan. James C. Miller, head of Citizens for a Sound Economy, joined him.*

A fiscal plan for certain tax increases and uncertain spending cuts should spur united business opposition.

But that wasn't the case when a budget summit produced just such a proposal under the guise of deficit reduction.

Among the business organizations that supported the summit recommendation were the National Federation of Independent Business, the Business Roundtable, the National Association of Manufacturers, the American Business Conference, and the National Association of Wholesaler-Distributors.

In what proved to be a decisive stand, the U.S. Chamber of Commerce "adamantly opposed" the proposal, rallied its effective grass-roots operation, and played a role in the defeat of the summit agreement. The Chamber's opposition was particularly significant because, unlike the other organizations, it is a broad-based federation representing the full spectrum of American business.

The U.S. Chamber's economic- and tax-policy committees and its Small Business Council analyzed the fine print in terms of the economic health of the nation. Their recommendation for opposing the tax plan went to the Chamber's Board of Directors, which then formally put the organization on record against the plan.

In announcing the board's action, Chamber President Richard L. Lesher told a news conference:

"Our primary objection to this scheme is its disproportionate emphasis on higher taxes . . . the bottom line is that our elected representatives have once again refused to make any serious decision to reduce spending."

While the nation is already in or close to a recession, Lesher said, the summit agreement was based on optimistic economic assumptions that "border on fantasy." The plan assumed, for example, that the GNP deflator, a broad inflation measure expected to hit 5.2 percent this year, would drop to 3.2 percent by 1993 and that the real economic growth rate, now less than one-half of 1 percent, would exceed 4 percent in 1993. By contrast, the Blue Chip Indicators, a composite of forecasts by private-sector economists, sets the 1993 deflator at 4.0 and growth at 2.7 percent.

Lesher also noted that the purported spending cuts in the summit proposal were "completely unenforceable." He added: "Time and time again we have seen Congress agree to make spending cuts in the future but then balk."

"The record [shows that] for every dollar in new tax revenues, federal spending increases on average $1.72," Lesher said in noting that the record deficits of recent years developed despite massive revenue increases.

The overwhelming vote by which Congress rejected the budget-summit agreement validated the U.S. Chamber's long, unrelenting battle for the obvious solution to excessive spending—less spending, not more taxes.

The nation was fortunate that this view prevailed in the first major test of the current fight over fiscal policy. It strengthened the anti-tax forces for later tests.

Decision makers in Washington must sooner or later learn that no amount of political maneuvering and hasty compromises will overcome resistance to higher taxes when taxpayers know that spending is out of control and are aware of countless examples of government waste. Until Washington accepts that reality, business will best serve the national interest by joining the campaign embodied in the U.S. Chamber's new slogan:

"The Fight Goes On." NB

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